BARCLAYS

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Nomura Financial Services Conference
Chris Lucas, Group Finance Director

[Slide 2: Name slide]

Good morning.

I'd like to thank Nomura for the opportunity to speak today and all of you for attending. I wanted to focus on two particular topics today – cost and margins. However, before I do so, I want to set the context by reminding you of our first half results.

Even before that, many of you may have seen this morning's announcement that Antony Jenkins has been appointed Group Chief Executive. This is the result of a thorough and rigorous search process conducted by the Board. We are confident that he is the right person to take the business forward. I couldn't agree more with this sentiment - Antony has a tremendous track record across both retail and wholesale businesses; he has played a key role in shaping our current strategy; and has a clear vision for where the Group needs to go next.

Many of you will be immediately interested in the implications of his appointment for the Group's strategy and performance expectations. Any new CEO will naturally bring a fresh perspective, but, in Antony, we benefit from someone who has tremendous experience in the businesses, our strategy and our leadership team. What I can say with absolute certainty is that our commitment to both creating return on equity that is sustainably above the cost of equity and, as part of that, controlling costs and delivery of our cost commitments remain unchanged.

[Slide 3: Performance highlights]

If I take you back to July we reported adjusted profit growth of 13% with good performances in UK Retail and Business Banking, Barclaycard, Corporate Banking and Wealth. There was also a good performance relative to the industry in the Investment Bank.

Operating costs decreased 3%; our capital, liquidity and funding remained strong with a core Tier 1 ratio of 10.9%; we further reduced our exposure to the Eurozone; and though we have further to go, we have made progress towards our 13% return on equity target.

Let me take you through the financial highlights before we talk about the individual businesses. In general my comments compare the first half this year with the same period last year.

[Slide 4: Adjusted Financial and performance highlights]

Total income grew 1% to £15.5 billion, impairment was flat at 1.8 billion, as reductions in many of our businesses were offset by an increase in the Investment Bank, and we have reduced operating costs by 3% to 9.5 billion. Together, these movements resulted in adjusted profits of 4.2 billion. Return on equity grew to 9.9% and return on tangible equity increased to 11.5%.

In our three largest businesses, which account for two thirds of Barclays' risk weighted assets, returns were at or above our targets. UK Retail and Business Banking delivered returns of more than 16%, at Barclaycard they were 22%, and the Investment Bank generated a return on equity of almost 15%. Other businesses were below our targeted returns and we continue to improve performance there.

[Slide 5: Adjusted Items to PBT]

Profits increased 13% to £4.2 billion on an adjusted basis, which is much larger than statutory profits of £759 million.

The adjusted numbers exclude a charge on own credit of £2.9 billion, a gain on the sale of our stake in BlackRock of £227 million, the additional £300 million PPI provision that we told you about in April, and a provision for redress on the sale of interest rate hedging products of £450 million.

I'm going to use adjusted numbers this morning, as usual, because they give a better understanding of the operating trends in the businesses. I'd like to move now to the performance of the individual businesses.

[Slide 6: UK Retail and Business Banking]

In UK Retail and Business Banking, profits grew 6% to £746 million, largely as a result of improved impairment in personal unsecured lending.

Total income decreased 2% to £2.2 billion, mostly as a result of lower net fees and commissions. Margins have reduced slightly, as expected, reflecting a lower benefit from the structural hedges.Net interest income remained broadly stable as a result of higher volumes.

Impairment charges reduced by 56% to £122 million and the annualised loan loss rate was 19 basis points compared to 46 basis points in 2011. Operating expenses increased 5% to £1.3 billion, including costs related to processing PPI claims.

Return on equity grew to 16.6%. Customer deposits grew 2% to £114 billion in the first half, while total loans and advances grew 2% to 123 billion, driven by growth in mortgage balances with net new mortgage lending of £2.2 billion.

[Slide 7: Europe Retail and Business Banking]

In Europe Retail and Business Banking we have worked hard to restructure the business and this has helped to reduce the loss by 43% to £92 million. Income decreased 20% to £486 million both as a result of the difficult economic environment and the fact that the business is now smaller. We've reduced the number of distribution points and headcount by 14%.

Impairment charges increased 35% to £157 million due to increased delinquencies across the mortgage book in Spain, Portugal and Italy, especially in the second quarter. Costs decreased 35% to **£428** million, reflecting a restructuring charge of **£129** million in the same period in 2011, and the benefits from that restructuring.

[Slide 8: Africa Retail and Business Banking]

In Africa Retail and Business Banking, profits decreased 20% to £274 million as a result of increased impairment on mortgages in the Absa recovery book, along with adverse currency movements. We have been disappointed by the level of provisions and expect to see this moderate in the second half.

Total income was down 8% at £1.6 billion, impairment charges increased 19% to £321 million, and costs fell 11% to just over a billion pounds. On a local currency basis, profits decreased 8%.

We remain, however, committed to our One Africa strategy as this is an attractive market where we have a strong competitive advantage. And you will have seen our announcement last week about discussions to combine Absa and the other Africa operations.

[Slide 9: Barclaycard]

There was strong growth in Barclaycard, with profits up 32% to

£753 million as a result of balance growth in UK consumer cards, the acquisitions made in 2011, a significant improvement in the US, and good growth in business payments due to higher volumes.

Income grew 3% to just over £2 billion. Within this, income in the UK was up 2% to £1.3 billion and international increased 3% to £745 million.

Impairment improved 29% to £460 million as 30 day arrears fell in the UK, US and South Africa. The annualised loan loss rate was 285 basis points compared to 420 basis points in the first half of 2011.

Operating expenses grew 8% reflecting the enlarged business after 2011 acquisitions, PPI processing costs and investment in the business. Return on equity was well above last year at 22%.

[Slide 10: Investment Bank]

Turning to the Investment Bank, total income grew 4% to £6.5 billion compared to the first half last year. Fixed Income, Currencies and Commodities grew 11% to £4.4 billion, Equities and Prime services fell 12% to just below a billion pounds, and Investment Banking was down 11%, reflecting lower market volumes.

There were impairment charges of £323 million compared to a release of £111 million during the same period last year. This included a charge related to legacy CDO assets as well as a single name corporate default in France.

Costs fell 3% to £3.9 billion, after absorbing about two thirds of the settlement relating to LIBOR - the remainder is accounted for in Head Office. Performance costs decreased 19%, and non-performance costs were up 4% as a result of the LIBOR settlement.

Taken altogether, this resulted in profits decreasing 2% to £2.3 billion. The cost to net operating income ratio was within our target range at 64% and the compensation to income ratio was 39%, compared to 45% last year. Return on equity was close to 15%.

In the first half we reduced credit market exposures by about £2.5 billion to £12.7 billion, mainly driven by the sale of commercial real estate loans and properties.

[Slide 11: Investment Bank Income]

If you compare second quarter performance with that of the second quarter last year, income was up 5%. Despite subdued market volumes, we've continued to grow share in many of our business lines including debt capital markets, where we retained our number two position in the global league tables, equity capital markets, where our share grew from 3.6% to 4.8% in the first half; and M&A, where share increased during the first half from 13% to 15.6%.

[Slide 12: Corporate Banking]

In Corporate Banking we've continued to make good progress and grew profits to £346 million. This compares to £54 million in the same period last year. Within this, profits in the UK grew 18% to £487 million; the loss in Europe was £180 million, which is an improvement of 50%; and there was a profit in other corporate markets of £39 million, compared to breakeven in the same period last year.

Impairment reduced 31% to £425 million, with a substantial improvement in Spain as a result of reduced exposure in the property and construction sector. Costs fell 16% to £754 million due to restructuring in 2011. Return on equity improved from under 1% to 6%.

[Slide 13: Wealth and Investment Management]

Wealth and Investment Management profits grew 38% to £121 million. Income grew 5% to £892 million. Costs grew just 1%, despite ongoing investment in the business, and client assets grew to £176 billion.

The return on equity grew to 10% - we expect Wealth to become a significant contributor to Group profits as a result of our investment programme.

A few words on costs for the Group overall...

[Slide 14: Adjusted cost income ratio improved to 61%]

We've reduced overall costs by 3% to £9.5 billion, while income grew 1% to £15.5 billion. As a result, the cost to income ratio decreased from 64 to 61%. Performance costs were down 14% to 1.4 billion, despite the income growth, and **non** performance costs reduced 1%. We know, however, we have further work to do to create the right balance for all our stakeholders.

[Slide 15: Adjusted Non performance costs]

Taking a look at **non-**performance costs in more detail….

In the first quarter we told you that our cost reduction programme would result in a non performance cost base of about £15.5 billion in 2013. We reduced the run rate of non performance costs significantly in the second half last year. We've sustained those savings in the first half this year. which has allowed us to absorb regulatory and investment costs of about £450 million.

Excluding the LIBOR settlement, non performance costs in the first half were £7.8 billion, so in the 6 months to June, we've largely achieved the cost run rate necessary to deliver a £2 billion reduction in non performance costs. We aim to maintain this run rate and self fund any additional investment in the business over the next 18 months.

I'd like now to provide greater detail on how we made £808m of cost savings.

[**Slide 16: Breakdown of £808m Cost Savings]**

We announced our non performance cost reduction plans in early 2011. This slide shows you the areas in which we have made savings, which will enable us to achieve our non performance cost target in 2013.

The **£808m** comprises of **£220m** in staff cost savings coming from a reduction in FTE and average cost per FTE: **£153m** reflecting the investments made in H1 2011 to reduce the underlying costs in these businesses; **£92m** saved from exiting non core businesses, such as Russia and Indian retail; **£42m** from technology savings in retail & corporate banking; **£201m** covers a number of potentially reversible items for example FX.

I'd like to now say a few words on margins, before closing with capital, liquidity and funding.

[Slide 17: Margins]

The 8 bps decline in our net interest margin for RBB, Corporate Banking and Wealth to 189 bps largely reflected the reduced contribution from our structural hedging activities, which you are familiar with. We are pleased that customer margins have held up well at 166 bps vs 167 bps in H1 2011, and that customer net interest income is also up 2% to £4.9bn.

The contribution from the product and equity hedges should be expected to continue to decline at a similar rate to what we have seen given the current low interest rates.

However, as you can see we continue to work hard to increase asset and liability balances to offset the effects of an underlying decline in hedge contributions. Turning now to capital, funding and liquidity.

[Slide 18: Capital, Liquidity and Funding]

Our Core Tier 1 ratio remains strong at 10.9% with risk weighted assets stable at £390 billion. Adjusted gross leverage was 20 times and we had a liquidity pool of £170 billion at the end of June. 92% is held in cash, highly liquid government bonds and deposits with central banks.

Our wholesale term funding maturities for 2012 are £27 billion and we have raised £20 billion during the first half. While our long term credit ratings moved down in the second quarter, our short term ratings remained unchanged.

[Slide 19: Pro forma Capital and RWAs]

We continue to manage the business to absorb changing regulation. And we're pleased that Risk Weighted Assets remained broadly unchanged over the 12 months to June 30, despite the implementation of Basel 2.5.

Allowing for consensus retained earnings for the second half, and assuming no organic RWA growth, we've estimated our Core Tier One ratio will improve to **11.3%** at the end of this year.

I'd like to share our current thinking on Basel 3 implementation which is scheduled to start from January 2013. Based on our current estimate of the RWA impact, we expect our Core Tier One ratio to reduce to **9.2%.** Taking into account consensus retained earnings in 2013, this improves to **10.3%** by the **end** of next year. These proforma ratios are clearly indicative as the rules have yet to be published and are clearly subject to further change.

Further phased capital deductions under Basel 3 transition rules are likely to reduce our Core Tier 1 ratio by about 60 basis points in total between 2014 and 2018.

If we were to apply all these deductions at the end of 2013, our fully loaded Core Tier One ratio would be 9.7%. The equivalent fully loaded figure at the end of June this year would be 7.9%. This takes no account of our planned management actions and future profit generation. But, for me, these numbers demonstrate the solidity of our capital.

[Slide 20: Summary]

So in summary, in July we reported a resilient performance for the first half. Adjusted profits grew 13% with good performances in UK Retail and Business Banking, Barclaycard, Corporate Banking and Wealth, as well as a good performance relative to the industry in the Investment Bank

Operating costs decreased 3% and I've given you today further detail on our non performance cost reduction programme. Our capital, liquidity and funding remain strong with a core Tier 1 ratio of 10.9%; we further reduced our exposure to the Eurozone; and though we have further to go, we made progress towards our 13% return on equity target.

So far as current trading is concerned, I said at the time of our half year results that performance in July was ahead of the prior year and we expect to see that trend continue in August.

I'd like to thank you for your time today and I'm now happy to take any questions you might have.