

**Chris Lucas, Group Finance Director  
2011 H1 Results Announcement**

Thanks Bob and good morning.

Barclays has delivered an encouraging performance for the half year in challenging economic conditions.

**Slide: Group performance**

Underlying or adjusted profit before tax grew 24% to £3.7 billion and on a statutory basis, profits were £2.6 billion.

“Adjusted” or “underlying” numbers exclude own credit, gains or losses from acquisitions and disposals, and the provision for Payment Protection Insurance taken in the second quarter this year.

I’ll use adjusted numbers this morning when it gives you a better understanding of the operating trends.

**Slide: Financial Summary**

Turning to the other headline numbers:

Total income decreased 8% to £15.3 billion. There was a good performance in Retail and Business Banking where income grew 3%.

Impairment improved by 41% to £1.8 billion, resulting in net operating income of £13.5 billion, which is 6% up excluding own credit.

Operating expenses grew 1% to £9.8 billion, excluding PPI.

Taken together, this resulted in adjusted profits of £3.7 billion.

#### **Slide: Adjusted performance measures**

On an adjusted basis, Return on Equity improved to 9.1%, and return on tangible equity increased to 10.9%. Our cost to net operating income ratio improved from 77 to 73%, and our dividend policy remains unchanged: we announced a dividend of 1 pence for the second quarter, bringing the dividend for the first half to 2 pence.

I'd like to move now to the performance of the individual businesses.

#### **Slide: Retail and Business Banking**

In Retail and Business Banking, we had good momentum.

Net operating income grew 14% to £5.4 billion and profits before PPI were up 33% to £1.4 billion.

#### **Slide: RBB – Business performance**

##### **Build: UK**

In UK Retail and Business Banking, profit before PPI increased 74% to £704 million.

Income grew 4% to £2.3 billion, with volume growth in mortgages and personal savings. Improved margins on both the asset and liability side resulted in a 7 basis point increase in net interest margin to 146 basis points.

Excluding a £400 million provision for PPI and a one-off pension credit of £118 million in 2010, operating expenses were down 11%.

## **Build: Europe**

In Europe Retail and Business Banking we reported a loss of £161 million.

Income was stable at £604 million, and we saw some positive trends: there was a small increase in net interest margin to 118 basis points due to better pricing of new business; impairment improved 13%, despite the economic environment, and, excluding restructuring, the business made a profit in June.

Expenses increased to £657 million. This included a restructuring charge of £129 million which was mainly in Spain, where we're closing 20% of our branches and reducing our headcount by 16%.

## **Build: Africa**

Africa now comprises Absa Retail and Business Banking and Barclays Africa.

Profits were broadly flat at £379 million. Income increased by 5% to £1.9 billion and impairment decreased 19% to £268 million. As a result net operating income increased 10% to £1.6 billion.

Costs grew from 1.1 to £1.2 billion reflecting a one off pension credit of £54 million last year, as well as currency movements.

## **Build: Barclaycard**

At Barclaycard, profits grew 65% to £524 million, excluding a £600 million provision for PPI.

There was a strong improvement in the performance of the international businesses; profits in the US and Absa each grew to over £100 million, largely as a result of reduced impairment.

Income grew slightly to £2 billion, including Egg and MBNA. Impairment charges improved 27% to £648 million and costs were held flat at £771 million, excluding PPI and a goodwill write off of £47 million relating to First Plus.

### **Slide: Corporate and Investment Banking (CIB)**

Turning now to Corporate and Investment Banking, where profit excluding own credit increased 7% to £2.3 billion.

### **Slide: Barclays Capital**

At Barclays Capital, excluding own credit, total income for the half year was down 11% to £6.3 billion.

There was an impairment write back of £111 million, and strong cost management led to a reduction in operating expenses of 3%. Excluding own credit, profit before tax was down 9% to £2.3 billion.

### **Slide: Barclays Capital adjusted performance measures**

The cost to net operating income ratio for Barclays Capital, excluding own credit, was 64%, within our target range of 60 to 65%.

Return on equity was 15% as we reduced legacy assets at prices at or above their marks. In total, these assets decreased £6 billion to £17.9 billion.

### **Slide: Barclays Capital quarterly income**

I know you're interested in the quarterly income progression.

Total income for the second quarter, excluding own credit, was £2.9 billion, which is down 14% on the first quarter. The breakdown by asset class is on the slide. This is a good performance relative to the industry and we're making good progress in the businesses in which we're investing.

## **Slide: Barclays Corporate**

Barclays Corporate delivered operating profit of £17 million, compared to a loss of £377 million last year as performance improved across all regions.

Profits in the UK increased 11% to £413 million.

In Europe losses reduced to £359 million, driven by improved impairment in Spain which was 46% lower at £299 million.

Losses in the Rest of the World more than halved to just over £100 million.

We're making good progress on the sale of Barclays Bank Russia and we've made a provision of £64 million in relation to this.

The current return on equity is obviously well short of our 2013 target, but this is a significant improvement on the first half last year.

We expect Barclays Corporate to break-even for the full year.

## **Slide: Barclays Wealth**

At Barclays Wealth there was strong income growth of 12% to £848 million.

Profits decreased 7% to £88 million, as we invested £44 million in the Gamma programme.

Return on equity was stable at 10% and we're on track to reach our target of 17 to 18% in 2013.

I'd like to give you more detail now on impairment, eurozone exposures and costs before I turn to capital.

## **Slide: Impairment improvement**

Impairment reduced 41% to £1.8 billion and the loan loss rate decreased to 74 basis points on an annualised basis from 118 basis points for 2010.

We're pleased at the speed with which impairment has improved, and we expect a steady loan loss rate in the second half, excluding write-backs.

## **Slide: Eurozone Exposures**

We've significantly increased disclosure on our assets in Greece, Ireland, Portugal, Spain and Italy.

As you know our exposure to Greece is minimal.

About half our total assets relate to retail mortgages in Spain, Italy and Portugal.

Our lending criteria are conservative and the average loan to current market value in these markets is just over 50%.

Let me remind you that our impairment charges in Europe Retail and Business Banking decreased to £116 million in the first half; the loan loss rate was down to 50 basis points, and credit risk loans were 43% covered.

Our corporate assets totalled £13.8 billion.

Over half our lending was to companies that we rate as strong or satisfactory on our credit grading scale.

We've taken substantial provisions already in our lower-rated corporate portfolio especially in Barclays Corporate Spain where we acted early.

Impairment charges here are now declining and we expect this trend to continue.

Our exposure to sovereigns totalled £11.6 billion. We think of this in 2 parts.

Firstly, £8.4 billion of exposures are held as available for sale in order to hedge interest rate risk relating to our local businesses, mainly in Spain.

Over half of this has a remaining life of under 2 years and is being replaced with interest rate swaps.

Secondly, our trading and derivative portfolio totalled £3.2 billion at the end of June and is actively managed. This reflects our role as a leading primary dealer, market maker and liquidity provider to our clients.

Finally our financial institutions exposure of £6.7 billion reflects normal interbank activity. A significant part of this relates to non-Irish banks with administrative centres in Dublin but with little Irish exposure.

So all in all, we're comfortable with the assets that we own and the values at which they're held. We'll continue to manage our risks here carefully.

### **Slide: Operating expenses**

Turning now to costs, which grew 1% to £9.8 billion, excluding PPI.

This roughly matches the increase in restructuring charges, which were £216 million in the first half, compared to £93 million for the same period last year.

The restructuring will of course deliver future cost improvements.

At the same time as controlling costs, we've continued to invest for growth.

In Retail and Business Banking, expenses grew 9% to £4 billion as a result of: restructuring charges of £129 million in Europe, goodwill impairment of £47 million relating to Barclaycard, and one-off pension credits in 2010 of £200 million.

Without these items, RBB costs were slightly down.

At Barclays Capital, costs decreased 3% to £4.1 billion as our investment spend reduced and cost reduction initiatives started to have an impact.

Costs in Barclays Corporate were broadly in line with last year, giving an overall reduction for Corporate and Investment Banking of 3% to £4.9 billion.

Excluding the UK bank levy and PPI provision, we're on track to keep 2011 non-performance costs in line with last year, and to deliver at least £1 billion of run-rate cost reductions for 2013.

Our first half numbers do not include an accrual for the UK bank levy which we expect to be in the range of £350 to 400 million for the full year.

## **Slide: Capital strength**

Moving on to look at the balance sheet, we maintain a strong capital position, with adjusted gross leverage stable at 20 times, and Risk Weighted Assets flat at just under £400 billion.

Our Core Tier One ratio increased to 11%.

Our Net Asset Value per share was up 6 pence on the year end at 423 pence. The increase from our retained profits was partially offset by reserve movements, notably currency.

## **Slide: Capital management**

We have continued to generate capital and retained earnings, excluding PPI, contributed 44 basis points to our Core Tier 1 ratio.

The PPI provision accounted for an 18 basis point swing in the other direction.

The new regulatory requirements for market risk contained in CRD 3 will come in to effect at the end of the year.

We calculate that our Core Tier 1 ratio would have been 10% had this been in force at the 30<sup>th</sup> June, reflecting additional market risk RWAs of £40 billion.

## **Slide: Funding and liquidity**

Our liquidity and funding position remains a key strength in volatile market conditions.

Our liquidity pool was down slightly from the year end at £145 billion, as we have intentionally reduced short term wholesale deposits.

Our Basel 3 Liquidity Coverage Ratio increased from 80% to 86% and our Net Stable Funding Ratio grew from 94 to 96% as we have continued to issue longer term liabilities.

We raised £19 billion of wholesale debt across a variety of products and geographies during the first half and the term funding we've raised over the last 18 months has already refinanced our 2011 maturities.

### **Slide: Highlights**

So in conclusion, adjusted profit before tax was up 24% to £3.7 billion, impairment improved by 41%, and net operating income was £13.5 billion.

Our adjusted return on equity improved to 9.1% and our Core Tier 1 ratio strengthened to 11%.

This represents an encouraging performance in challenging market conditions.

Thank you very much. I'll now hand back to Bob.