BARCLAYS

Barclays PLC Full Year 2011 Results Presentation
Chris Lucas, Group Finance Director

[Slide: Profit before tax]

We delivered adjusted profit before tax of £5.6 billion in 2011 which was well balanced across the Group. Statutory profits were broadly similar at £5.9 billion. The adjusted numbers principally exclude: gains on own credit and debt buy-backs of £3.8 billion; impairment on our stake in BlackRock of £1.8 billion; the £1 billion provision for PPI and almost £600 million of goodwill write offs taken in the fourth quarter, mainly in Spain.

I'm going to use adjusted numbers throughout my presentation because they give a better understanding of the operating trends and performance. We have of course provided statutory numbers in our announcement.

[Slide: Group performance]

Turning to the headlines for the Group. Income declined 8% in a very challenging environment. Impairment improved 33% to £3.8 billion, and our annualised loan loss rate reduced to 77 basis points, from 118 basis points last year.

We reduced costs by £869 million or 4% to £18.9 billion, excluding the bank levy. Profits declined just 2% as a result of our focus on cost control and strong risk management.

[Slide: Performance measures]

Our return on equity was 6.6% and return on tangible equity was 7.9%. We recognise that this is unsatisfactory and Bob will talk more about returns later.

Earnings per share were 25.1 pence and as Bob announced a final dividend of 3 pence bringing the total dividend for the year to 6 pence.

Turning now to the performance of the individual businesses.

[Slide: Retail and Business Banking Performance]

UK Retail

I'll start with UK Retail and Business Banking where profits grew 60% to £1.4 billion. Income increased 3%, mainly in mortgages and personal savings. Impairment improved 35% as a result of lower unsecured lending charges, and costs were down 4%.

This delivered a Return on Equity of nearly 15% - up from 10% in the prior year.

Total loans and advances to customers increased 5%, driven by mortgages.

Europe

Europe Retail and Business Banking reported a loss of £234 million. This included £189 million of restructuring, principally in Spain, where we've closed 20% of our branches and reduced headcount by 18%.

Impairment in Europe improved 17%, reflecting our relatively conservative risk profile.

Africa

Africa RBB profits increased 26% to £908 million, with improvements in income, impairment and costs, despite depreciation of the Rand against sterling.

Barclaycard

At Barclaycard, profits grew 53% to £1.2 billion. Income rose 2%, while impairment declined 25%, as arrears improved in all of our major markets.

Return on Equity rose to 17.4% from less than 13% last year.

[Slide: Barclays Capital]

Barclays Capital reported profits of £3 billion. Income was down 22% to £10.3 billion in difficult market conditions. Impairment was less than £100 million, and expenses decreased 12% to £7.3 billion as we exercised tight cost control.

This included a reduction in both performance and non-performance costs.

[Slide: Barclays Capital income]

Income in the fourth quarter was down 19% on the third quarter. FICC revenues decreased 32%, Equities and Prime services were down only 10%, which is a good performance compared to the industry, our revenues in our M&A advisory business increased 30%.

We continued to grow market share which Bob will talk about later.

[Slide: Barclays Capital performance measures]

The cost to net operating income ratio was 71% as a result of weak market conditions in the second half as well as ongoing investment in the business

This compares well to the industry though it's above the target range of 60-65% to which we remain committed. Despite market conditions, Barclays Capital generated a Return on Equity of 10.4%.

[Slide: Barclays Corporate]

Barclays Corporate delivered profits of £126 million, compared to a loss of £388 million last year. The UK business reported profits of almost £750 million while lending in the UK increased 5% to £66 billion.

Performance outside the UK improved dramatically. In Europe, losses reduced 39% to £524 million, driven by improved impairment in Spain, which halved to just under £500 million.

This shows the benefit of the early action we've taken to recognise impairment in 2010. Losses in other corporate markets reduced 74% to under £100 million.

[Slide: Barclays Wealth]

At Barclays Wealth we continued to invest in the business and profits increased 27% to £207 million, as income grew 12% and exceeded cost growth.

At this point, I'd like to talk briefly about margins across the Retail, Corporate Banking and Wealth businesses. Our overall net interest margin was broadly flat year on year which is a good performance, given the environment.

Looking forward, the continuation of low interest rates will result in a lower but still significant contribution from our structural hedges. You'll find more detail on margins in the results announcement.

[Slide: Head Office and other operations]

Gains on own credit and debt buybacks are now accounted for in the Head Office and the impairment on our stake in BlackRock is in Investment Management.

Adjusting for the Bank Levy, Head Office losses of about £780 million are broadly flat year on year.

I'd like to give you more detail now on costs, capital, liquidity and funding. I'll start with costs.

[Slide: Operating expenses –actual to adjusted]

This slide shows the breakdown between statutory and adjusted costs in 2011. Excluding PPI and goodwill, costs amounted to £19.2 billion.

The UK bank levy of £325 million also affects the year on year comparison but excluding this, costs were down 4% to £18.9 billion.

As you know, we announced plans last year to achieve a cost reduction of £1 billion by 2013.

[Slide: Operating expenses]

This slide gives a more detailed breakdown of the reductions we have made. Costs decreased by £1.4 billion, after adjusting for year on year changes and a one off pension credit. This reduction breaks down into performance costs of £823 million and non-performance costs of £592 million.

You'll find detailed disclosure on the performance costs in the announcement.

The target for 2013 is based on non-performance costs. These are being reduced through actions such as: rationalising our locations across the business, sharing infrastructure between Barclays Capital, Barclays Corporate and Wealth, integrating global support functions such as IT and Property Management, and challenging all additional spending.

Having started to make these changes, it's clear that they will deliver more savings than we initially expected, and as Bob said, we're now increasing our non performance cost savings target to £2 billion.

[Slide: Balance sheet]

Moving on to look at the balance sheet, total assets grew 5% to almost £1.5 trillion. I know this is a large number, so I want to spend a few minutes looking at this in relation to our funding requirements.

Approximately one third of the gross balance sheet is accounted for by broadly matched derivative assets and liabilities.

Most of the total asset growth in 2011 relates to this part of the balance sheet, where 7% growth in derivative assets is matched by equal growth in derivative liabilities.

A further proportion of the balance sheet is reverse repos. These are used either to settle short inventory positions or to provide customer financing that's collateralised by highly liquid assets.

Customer loans and advances are largely financed with customer deposits.

The substantial proportion of our liquidity pool is funded with wholesale funding that has maturities of more than one year and all short term liabilities that we raise are put directly into the liquidity pool.

The remaining assets on our balance sheet are primarily funded by longer term wholesale funds and equity.

Analysing the balance sheet this way shows that only £265 billion of our total balance sheet relies on wholesale funding. We raised £30 billion of wholesale term debt in 2011, against maturities of £25 billion.

Our wholesale term funding maturities for 2012 are £27 billion and we raised £5 billion in January at highly competitive rates, reflecting the strength of our brand and credit quality in the market.

Most of our outstanding term debt is unsecured, and the level of encumbrance on our loan book is approximately 10%, so we have a lot of flexibility going forward.

[Slide: Funding and Liquidity]

Despite stresses in the funding markets, our liquidity remained strong throughout 2011, and at the year-end our liquidity pool stood at £152 billion, most of which is in central bank deposits and high quality government bonds.

We're confident that we'll meet the Basel III Liquidity Coverage and Net Stable Funding ratios in the timescale required.

Moving on now to capital.

[Slide: Capital strength]

We strengthened our Core Tier 1 ratio from 10.8 to 11%. Retained profits added 70 basis points to the capital ratio during the year which more than offset pension fund contributions and other movements.

Adjusted gross leverage was stable at 20 times, and risk weighted assets were slightly lower at £391 billion despite absorbing a £30 billion increase in Market Risk RWA's resulting from the introduction of CRD3.

This reduction was the result of management actions as well as lower business volumes in Barclays Capital during the second half.

[Slide: Basel 3 Core Tier 1 pro forma]

We continue to work on the implementation of Basel III but the way in which we've managed Basel 2.5 demonstrates how we're able to respond to regulatory change

Pro forma calculations show consensus retained earnings delivering an increase in our capital ratio of 150 basis points by the end of 2013 on a Basel 2.5 basis.

We estimate that this increase will be offset by Basel 3 impacts on capital and RWAs mitigated by management actions such as: further reductions in legacy assets, tight management of counterparty risk, and reductions in securitisation positions.

This takes us to a pro-forma Core Tier 1 ratio of about 11% at the end of 2013 which allows capacity amounting to about £50 billion of RWA's above a 10% Core Tier 1 ratio.

We view this as a suitable buffer to manage business growth, regulatory uncertainty and volatile market conditions.

[Slide: Summary]

Finally I'd like to comment briefly on the outlook for 2012.

The performance of RBB and Corporate Banking in January was consistent with the good performance achieved in 2011.

Though it is too soon to suggest a trend, improvement in market conditions has resulted in an encouraging start to the year for Barclays Capital

So to summarise, we delivered profits of £5.6 billion, with income growth in every business except Corporate and Investment Banking; impairment improved 33%, we've managed costs down 4%, excluding the Bank Levy, and we increased the dividend by 9%.

Our capital ratio increased to 11%, and our funding and liquidity strength continues to give us a competitive advantage.

Thanks very much - I'll now hand back to Bob.