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Barclays PLC Full Year 2012 Results Announcement

Chris Lucas, Group Finance Director

[Slide: Name slide]

Good morning and thank you for joining us.

As you know, this is an important day for Barclays. We announced the key conclusions from our strategic review this morning, and Antony will give a presentation on them at 12.30.

The Executive Committee will be there to answer questions and the event will also be webcast.

The purpose of this call is to focus purely on the results for 2012. As usual, we're using adjusted numbers - they give a better understanding of our underlying performance.

Turning now to the headlines.

[Slide: Adjusted Financial highlights]

We've made good progress across most of our businesses during the year.

Adjusted profits increased 26% to £7 billion. Total income was up 2% at £29 billion, despite gilt gains of £1.1 billion from the sale of hedging instruments in 2011.

Impairment improved 5% to £3.6 billion, mainly as a result of favourable trends in our UK businesses.

This resulted in net income growth of 3% to £25.4 billion.

We continued to reduce costs which decreased 3% to £18.5 billion, and our capital, liquidity and funding remain strong. Our Core Tier 1 ratio was 10.9% and our total capital ratio was 17.1%.

[Slide: Adjustments to profit before tax]

Adjustments to statutory numbers include:

- a £4.6 billion charge on own credit,
- a provision for PPI of £1.6 billion,
- an £850 million charge for redress on interest rate hedges,
- and a gain on Blackrock.

As a result, statutory profits were £246 million.

The provisions include additional charges taken in the fourth quarter which we announced last week.

£400 million was provided for redress on interest rate hedges. This is based on the FSA's report after a pilot exercise conducted in the fourth quarter. A charge of £600 million was made for PPI. This is largely the result of higher than expected response rates from proactively contacting customers ourselves. The PPI balance sheet provision at the year end was £990 million.

[Slide: Adjusted performance measures]

Return on equity increased from 6.6 to 7.8%. We'll talk more about our plans to improve this later today.

Our four largest businesses all increased returns. There were strong performances from UK RBB and Barclaycard, which reported returns of 16% and 22.1% respectively. The Investment Bank delivered returns of 13.7% and Corporate Banking continued its turnaround. Returns there were 5.5%, up from 1.7% in 2011. Returns by business are shown in the appendix to the slide pack.

I've told you that we'll be allocating more head office results to the businesses going forward.

We'll issue details of this before our first quarter. The business returns we're reporting this morning exclude this allocation, so Head Office is reflected in our Group returns.

The Group's cost income ratio improved from 67 to 64%.

Adjusted earnings per share increased to 34.5 pence, and we've announced a cash dividend for the fourth quarter of 3.5 pence, bringing the total to 6.5 pence for the full year.

This is up from 6 pence in 2011. We understand the importance of dividends, and aim to pursue a progressive policy which Antony will talk about later. The decrease in net tangible asset value per share mainly reflects the own credit charge, provisions for PPI and interest rate hedges, and other adverse reserve movements.

Turning now to the individual businesses.

[Slide: UK Retail and Business Banking]

In UK RBB, profits were up 4% to £1.5 billion.

Total income was down 5% to £4.4 billion, reflecting the non-recurrence of gilt gains, and a decline in the underlying contribution from structural hedges.

Excluding these impacts, income was stable, as growth from higher volumes of customer assets and deposits was offset by increased funding costs.

Impairment charges halved to £269 million. This reflects improvements across all portfolios, especially in personal unsecured lending. The loan loss rate also halved to 21 basis points. 90 day arrears on unsecured personal loans improved by 33 basis points to 1.34%.

Excluding PPI, costs reduced 1% to £2.7 billion.

[Slide: Barclaycard]

At Barclaycard, profits were up 25% to £1.5 billion.

Income grew 2% to £4.2 billion.

Impairment improved 22%, and the loan loss rate was 282 basis points, compared to 391 in 2011. 30 day arrear rates improved in both the UK and US.

Excluding PPI and goodwill impairment in 2011, costs grew 3%.

[Slide: Africa Retail and Business Banking]

In Africa RBB, income decreased 12% to £3.2 billion. This was the result of adverse exchange rates and non-recurring gilt gains. Impairment grew 39% as a result of provisions taken in the second and third quarter on mortgages in the Absa recovery book.

We believe impairment in this book has now stablised, and early arrears are improving across almost all portfolios, including mortgages. Costs decreased 10% reflecting currency movements. Profits were down 44% to £468 million.

During the fourth quarter we announced plans to combine the majority of our Barclays Africa operations with Absa. The terms of the transaction are supported by an independent fairness opinion. They will be voted on by Absa shareholders later this month.

[Slide: Europe Retail and Business Banking]

Europe RBB made a loss of £239 million. Income fell 25%, reflecting the economic environment. Impairment increased 26%, or £67 million, mainly as a result of a deterioration in mortgages. We reduced costs by 31% as savings flowed through from the restructuring in 2011.

We also reduced the local funding gap in Europe. Customer assets reduced slightly in Euros, while deposits increased, notably in Spain.

[Slide: Investment Bank]

Turning now to the Investment Bank, profits grew 37% to £4.1 billion.

Total income grew 13% to £11.7 billion. Within this, Fixed Income, Currencies and Commodities increased 17% to £7.4 billion, Equities and Prime services grew 14% to £2 billion, and Investment Banking was up 5% at £2.1 billion.

This income growth reflects share gains in many product areas. It was achieved despite a 5% reduction in RWA's to £178 billion, and a 33% reduction in Daily Value at Risk to £38 million.

Impairment increased from 93 million to £460 million. This increase includes a charge relating to legacy CDO assets. There was also a one off release of £223 million in 2011.

We reduced the bonus pool and other incentive awards granted in 2012 by 20%, while income grew 13% and profits were up 37%. The full impact of this reduction will feed into results in future years, due to the IFRS treatment of deferred bonuses.

Our reported costs in 2012 fell 1% to £7.2 billion.

Performance costs were down 3% to £1.7 billion, despite an increase of £210 million in charges relating to deferrals from prior years. Non-performance costs were broadly in line with 2011, after absorbing £193 million of the Libor settlement.

Excluding Libor, non-performance costs fell 4%.

The cost to net operating income ratio improved from 71 to 64%, and the compensation to income ratio reduced from 47 to 39%.

We continue to reduce our legacy assets. Credit Market Exposures decreased by almost £6 billion to £9.3 billion, and we exited these positions at or above our marks.

We believe that annual trends give a better understanding of performance, but we also report quarterly numbers as we know you're interested in them.

[Slide: Investment Bank Quarterly Income progression – overall]

You can see that quarterly income progression in 2012 is a similar shape to 2011 but at a higher level.

Comparing the fourth quarter last year with the third quarter, total income was down only 2% at £2.6 billion, despite tougher market conditions. As we've said before, our flow business model is designed to protect us from downside market risks. As a result, we may outperform in weak markets and underperform in strong markets. We see the fourth quarter as further evidence of this.

[Slide: Investment Bank Quarterly Income progression – by sub-segment]

Drilling down to look at the quarterly progression by business line:

- Fixed Income, Currencies and Commodities were down just 8% in the fourth quarter;
- Equities and Prime Services were down 9%, as we grew share despite low market volumes;
- Investment Banking was **up 29%.**

[Slide: Corporate Banking]

In Corporate Banking, profits more than doubled to £551 million. Within this, the UK was up 22% to £910 million, losses in Europe reduced to £381 million, and other regions reported a small profit compared to a small loss in 2011.

Income was down 6% to £2.9 billion. Impairment improved 24% to £872 million. There was a 30% reduction in Spain to £337 million, resulting from lower exposure to the property and construction sector.

We reduced costs 14% to £1.5 billion.

[Slide: Wealth and Investment Management]

In Wealth and Investment Management, profits grew 52% to £315 million as our investment in the business gained traction.

Income grew 4% to £1.8 billion, driven by the high net worth business and related increases in both customer loans and deposits.

Costs were down 2%, despite continued investment.

Client assets under management increased 13% to £186 billion, mainly as a result of net new assets in the High Net Worth business.

[Slide: Head Office]

Losses in Head Office were £1.1 billion compared to £1 billion in 2011.

There was an improvement in the income line of £148 million. This was mainly due to a one-off gain on hedges relating to employee share awards, which we closed out in the first quarter.

This was more than offset by an increase in the bank levy and other operating expenses amounting to £243 million.

Operating expenses include:

- £97 million of the LIBOR settlement,
- and Financial Service Compensation Scheme charges,
- which increased by £90 million.

Moving on now to capital, liquidity and funding.

[Slide: Capital, Liquidity and Funding]

Our Core Tier 1 ratio at the end of 2012 was 10.9% on a Basel 2.5 basis. Our total capital ratio was 17.1% and RWA's were slightly down at £387 billion.

Our liquidity position remains strong with a pool of £150 billion. This compares with wholesale funding maturing this year of £101 billion. At the end of December, we had a liquidity coverage ratio of 126%, based on the latest Basel plans. We are already compliant with Net Stable Funding Ratio proposals.

We had £27 billion of term debt maturing in 2012. We issued £28 billion of term funding, which enabled significant pre-funding of our term maturities **this year** which are £18 billion. This issuance included $3 billion of Tier 2 Contingent Capital Notes, which are fully allowable as Primary Loss Absorbing Capacity. We also raised £6 billion through the Bank of England's Funding for Lending Scheme.

Our retail banking, corporate banking and wealth businesses are largely funded by customer deposits. The loan to deposit ratio for these businesses improved from 111 to 102%.

[Slide: Pro forma Core Tier 1 ratios]

We've talked to you about the impact of Basel 3, based on implementation in January.

As you know, that implementation didn't take place. To allow comparison with our previous disclosure, we're showing the ratio reported at the year end, alongside proforma ratios, as if we had applied Basel 3.

We've also included the impact of IFRS changes that apply from January.

Our latest Basel 3 estimates show a proforma Transitional Common Equity Tier One ratio of 10.6% as at January 1st. We also show the fully loaded ratio which is 8.2%, a slight increase on the position disclosed for the end of September. Detailed calculations are in the appendix to the slide pack.

We continue to believe that we're well capitalised and will discuss our capital structure and targets this afternoon.

Turning now to margins.

[Slide: Margins]

As I've mentioned before, we look at margins in two parts:

- customer margins which drive the vast majority of our net interest income,
- and then the secondary margin derived from our structural hedges.

I'll start by talking about hedging.

Across the Group as a whole, the total contribution from structural hedges fell from £3.3 billion to £1.7 billion as expected. This was mainly due to the 2011 gilt gains, which we realised as we shortened the duration of hedges.

The reduction in underlying contribution from these hedges is expected to be less pronounced this year.

The businesses which contribute to our net interest margin analysis are Retail and Business Banking, Corporate Banking and Wealth.

Overall margins from these businesses fell 18 basis points to 1.85%. 14 basis points of this decline – or £800 million – was from the reduced hedge contribution. This shows the relative stability of our customer margins.

Increased volumes, mainly on the liability side, broadly offset slight customer margin contraction, so that net interest income generated from customers was stable at £9.8 billion.

Overall net interest income from these businesses decreased 7% to £11.2 billion.

Turning now to costs.

[**Slide: Cost income ratio improved to 64%]**

We reduced overall costs by 3% to £18.5 billion.

Performance costs for the Group were down 4% to £2.4 billion, while income grew 2% and profits were up 26%.

We reduced non performance costs for the Group by 3% to £16.1 billion.

This includes the LIBOR settlement of £290 million and Bank Levy of £345 million. Without these items, the level of non-performance costs would have been £15.5 billion, which is in line with our cost savings target.

Bonuses and incentive awards granted in 2012 across the Group were reduced by 16%. This reflects action taken to reposition our compensation in the marketplace and various conduct issues.

That's all I have to say on the 2012 results.

Looking at current trading, there's been a good start to the year across the Group in January.

[Slide: Summary]

So in summary, we're reporting good results for 2012.

Adjusted profits grew 26% to £7 billion, income was up 2%, despite gilt gains of £1.1 billion in 2011, impairment improved 5%, and we reduced costs by 3%.

Our capital, liquidity and funding remain strong with a Core Tier 1 ratio of 10.9%.

Thanks very much – we look forward to speaking to you again later today - I'm happy to take questions on the results now.