Full Year Results 2009

16 February 2010

John Varley

Chris has described the main components of our 2009 financial performance…

……and you've heard from Robert about risk.

My intention is, mostly, to look forward this morning.

Before I do that, I want to start with two points of perspective.

And I want to show you how we've performed versus the scorecard for 2009 that we gave you a year ago.

Perspective: first, when I reflect on the last three years, I'm struck by how often we have had to make explicit choices about which path to follow.

The sign-posts haven't always been clear.

And the consequences of taking the wrong path might have been bad.

At the Board, and at the Executive Committee, we thought carefully about those choices.

It would, candidly, have been easy to be fatalistic about them.

But we decided in 2007 that we must impose our will on the course of events, to the extent that we could.

Second, the objective of a bank is to generate returns for shareholders.

But banks can, and should, in ways consistent with that objective, contribute to the well being of society by conducting their business responsibly….

….and by performing well, on behalf of their customers, their core functions of….

….payments and money transmission….

…..safe storage of deposits….

….maturity transformation and lending….

….and the provision of advice and execution in underwriting and trading.

These activities lie at the heart of every modern economy…….

…… and if economies are to grow (with all the beneficial consequences that flow from that) then banks must help their customers take appropriate risks.

A key differentiating factor in the performance of banks has been their ability to understand and manage risk.

And managing risk was a big part of our focus last year – strategic risk, business risk and financial risk.

The 2009 scorecard is on the screen now.

On the strategic front, we did the BlackRock transaction.

We moved quickly to build-out our European and Asian equities and M&A business before others were undertaking significant hiring in the capital markets.

And we acquired the credit card business in Portugal.

We entered a joint venture in life assurance in Spain, Portugal and Italy with CNP……

……and we acquired Standard Life Bank in the UK.

Operationally, we tried to be conservative.

Managing capital stood out like a beacon of necessity.

In the areas of capital and liquidity…

….we made a lot of progress during 2009……

… anticipating the requirements of central banks and supervisors…..

……and thereby positioning us well to accommodate the further changes that are coming.

Meanwhile, 2009 demonstrated our ability to create equity by profit generation…

… and to strengthen capital ratios and / or absorb regulatory impacts by managing the balance sheet tightly.

We put the pursuit of returns before growth.

We reduced the size of the balance sheet……

……and we reduced leverage.

An explicit objective in growing our distribution network has been deposit gathering.

In 2009, we improved our loan to deposit ratio, largely due to a net increase of £15 billion in GRCB’s deposits.

We said that we would manage the relationship between income growth and cost growth carefully……

……and we produced jaws of 10% for the year.

So 2009 was a year of more income, more profit, but less risk in the balance sheet.

One postscript on last year.

You’ll remember that we committed to making an additional £11bn of credit available to the UK economy.

We actually lent above £35bn……

……about half to households, and half to businesses.

And we supported more business start-ups in 2009 than for many years.

You need clear objectives during a crisis; ours have been:

staying close to customers and clients…..

……managing our risks…..

……and maintaining strategic momentum.

These objectives remain completely appropriate for 2010.

I believe that the steadiness of our profit performance during the crisis is largely attributable to the diversification of income that we've worked at during the last years……

……not least because it has enabled us to absorb the significant increase in write-downs and impairment that are consequences of the credit crunch and the economic slowdown.

The history of the last twenty years has revealed, on many occasions, the benefits of having a capital markets business and a retail and commercial banking business in the same group.

The asymmetry of their income and impairment cycles is often a source of risk diversification and resilience.

We're seeing that again in this cycle.

This is one of the benefits of running a universal banking business.

In November, we announced several changes to the structure of the Group.

We created a new business called Barclays Corporate, which comprises the larger business relationships from what was Barclays Commercial.

We placed Barclays Corporate alongside Barclays Capital, to form Corporate and Investment Banking.

And we created Global Retail Banking, comprising UK Retail, Barclaycard, GRCB Western Europe, and GRCB Emerging Markets.

These changes have at their heart the alignment of specialist capabilities in Barclays with the needs of the customer and client segments we serve.

A few words first about GRB. We have significantly grown our retail and commercial banking customer footprint over the last three years.

I've asked Antony Jenkins, the new Chief Executive of GRB, to push that strategy forward, strengthening the UK franchises…..

…..but increasing, through time, the ratio of non UK to UK business….

….with emphasis on creating critical mass in markets where we have a greater presence.

Our goal is depth, not breadth.

Antony and I have agreed four objectives for GRB:

profit growth;
an improved loan to deposit ratio;
deeper penetration in existing markets, leading to further international diversification;
and the generation of net equity.

I acknowledge that we have been too aggressive in our approach to business expansion in certain Emerging Markets.

We have built scale quickly, and we now serve almost 4m customers across these businesses.

But we must convert the investment in people, in customer recruitment, and in sales outlets, which has driven good progress in the income line, into sustainable profits.

In Western Europe, where we serve almost 3 million customers and where we have a presence in the right markets, I want to see sustainable profits too…..

…..which will mean a business that is less reliant on one-offs in the future.

Our retail and corporate banking businesses – GRB, Absa and Corporate Banking – are heavily geared to the turn in the cycle.

Their loan loss rates are high, today, by historical standards.

We saw some improvement in these in the second half of 2009, but we remain cautious about the lagging effect of rising unemployment on these businesses.

As we execute our strategy, and when the cycle turns (and it will), the profits of GRB, Absa and Corporate Banking, and the scale of their relative contributions to the Group's profits, will rise materially.

These businesses already generate £8bn of pre-provision operating profit, which is over 60% of the Group.

Our plan is to have the new GRB and Barclays Corporate teams present to the market at a seminar this summer….

…which will allow them to set out their business plans for you.

When we announced the formation of CIB in November, we said that we saw the close relationship between Barclays Corporate and Barclays Capital – particularly in the areas of relationship management and sector expertise – as a source of significant synergy in the future.

All around the world we see……

…….growing fungibility of client requirements……

… as between corporate banking and investment banking needs.

The opportunity is global, and it should be a source of significant income and cost performance for our new CIB division in the years ahead.

The competitive landscape in the global wealth industry has changed.

That creates opportunity too.

Barclays Wealth is too small today and we intend to grow it.

Some years back, we had the same point of view about both Barclays Capital and Barclays Global Investors.

Ten years ago, Barclays Capital's annual profits were about £300 million and BGI's about £50 million.

As you know, both of those profit lines grew quickly in the years that followed.

So I believe we have a track record of growing businesses organically.

At our Board meeting last December, we agreed to adopt a growth plan for Barclays Wealth.

We intend to invest £350 million over the next five years, in an organic build-out, operated on a pay-as you-go basis.

Our objective is to change the scale of this business.

Turning to “managing our risks”……

…….our risk management was subjected to a further vicious test during 2009.

Given how difficult it was to predict the outlook a year ago….

….I think it was quite brave of us to share our planning assumptions with you…

….and to give you a loan loss range for 2009!

It reflects well on our planning and risk management that the outturn was at the bottom end of that range.

Robert has set out his expectations for our loan loss performance in 2010.

I won't add to what he's said.

For many years, we have been big users of stress testing at Barclays.

We run weekly stress tests on key portfolios…

….and we regularly assemble a consolidated top-down view…….

……..of the resilience of our capital and liquidity positions to stress scenarios.

The FSA has increased its focus on stress testing as part of its regular supervision cycle.

Probably the greatest risk for us is the uncertain outlook for regulatory reform.

It's a risk we must manage…….

…….and we shouldn't be fatalistic about it.

Some commentators think that the reform agenda could require the deconstruction of universal banks.

We believe a safer system does not require narrow banking.

Indeed, there is no correlation at all between "failure" and big or small, narrow or broad, domestic or international.

We see big banks as risk diversifiers, not risk aggregators.

But we know that, if our view is to prevail – and I think it will…..

……then governments and supervisors need to see the banks adopting a responsible attitude towards capital, liquidity, leverage, credit supply, counter-cyclical provisioning, remuneration, and disclosure.

The Basel authorities announced a package of proposed reforms in December, on which they are consulting through the first half of this year.

We will need to accommodate such changes as are finally enacted over the coming years….

….and we have the ability over that period to take mitigating action.

The impact studies which will be conducted by the authorities…..

…..must model the consequences of the aggregate reform package for the global economy…..

….not least because the economic recovery is fragile, and the principal, and understandable, requirements of governments and central banks…

…is for banks to increase their lending activities.

A system that has:

higher tier 1 capital,

higher liquidity,
lower leverage,
counter-cyclical capital buffers,
a capital premium for systemically significant banks
higher risk weightings,
and, higher capital deductions……

…….is a system which is likely to generate lower shareholder returns and / or higher costs to customers.

We think these points are intuitively well understood by stakeholders.

Careful analysis, including an understanding of what implementation timetable best serves sustained economic recovery, must be completed….

….because we have one shot at getting it right.

Let me turn to our third objective: maintaining strategic momentum.

Barclays strategy has been stress-tested over the last three years, and we think it's withstood the test quite well.

Our strategy is to increase our growth potential over time by diversifying our business.

Despite the regulatory uncertainty that I have described, our strategic flight path is very clear.

To consolidate the position of Barclays Capital in a transformed investment banking industry.

To convert, into sustained profits, the investments we've made in our international retail and local business franchises (including in Absa).

To continue to diversify Barclaycard (where the number of customers outside the United Kingdom now exceeds the number inside the United Kingdom).

To build out Barclays Corporate, with a focus on internationalising it further.

To implement the growth plan at Barclays Wealth, transforming the scale of that business over time.

On Group shape……

……we see the optimal profit mix as being:

two-thirds from retail, corporate banking and wealth management;
and one-third from investment banking.

I'm careful not to point you to a timetable for getting there…..

…..because I don't want you to think that we're hell-bent on getting to that shape by a particular date…..

……and, therefore, that we are hell-bent on acquisition.

We're not.

What matters here is the direction of travel.

The change in organisational structure that we announced last November is intended to help us implement the strategic objectives I've just outlined.

I will cover dividends and goals in a moment.

But, first, some words about remuneration….

….looked at from the angles of objectives, architecture and outcomes.

First, objectives.

We must be compliant.

Our policies and practices are fully compliant with the new FSA Code and with the G20 principles.

The remuneration policies we have adopted in 2009 have had…

…the protection and enhancement of capital ratios…

…as an explicit goal.

We see remuneration as a means to an end.

That end is the implementation of strategy, in a way that serves the interests of shareholders.

Next, architecture.

We have ensured that, for senior staff, a significant percentage of compensation is deferred, with vesting in equal thirds over a three year period.

The amount of deferred compensation has increased by about 70%.

The 2009 bonuses paid to members of the Group Executive Committee and of the Barclays Capital Executive Committee are 100% deferred.

Where we use shares, there will be no dilution of existing shareholders, because we will buy shares in the market to fund this year's awards.

All deferred awards are subject to claw-back.

The decisions that we have taken are based on a risk adjusted view of 2009 performance…….

…….with independent reports to the Group Remuneration Committee……

…….from the Finance Director and the Chief Risk Officer.

Turning to outcomes.

Chris has reported on the size of our discretionary bonus pool.

He also talked about the amount of payroll tax we are paying.

Since the tax was announced in December…

..…we have managed the compensation pool down…….

……so that the cost of the tax to the Company broadly equates to the reduction in the size of the pool…

…with that reduction being borne by senior employees.

Where payroll tax is payable in subsequent years, we will follow the same approach.

We've set out some of the key data on compensation in the appendix to Chris' presentation.

I don't pretend that the judgements we have to make in the area of pay are easy, or straightforward.

The market for the best people is both global and intensely competitive.

And if we are to remain successful, we must attract, and retain, the best people.

But our objective is to pay the minimum consistent with competitiveness.

Pay must be affordable in the context of…
generating a profit
investing in the business
maintaining strong capital ratios
and paying dividends.

On dividends, we will pay a final dividend in March 2010.

Given the regulatory uncertainty, it would be imprudent for us to move the needle on dividends significantly.

But, subject to that caveat, which I hope our shareholders understand, our dividend policy is intended to be progressive relative to a 2009 annualised dividend rate of 4.5 pence per share.

Lastly, goals.

Our output goal is that our TSR should be top quartile relative to our peer group over time.

We believe that that goal will best be served by managing multiple input goals.

These include:-

economic profit
balance sheet size and leverage;
RWAs and returns;
Core Tier 1 capital;
return on equity;
funding and liquidity;
the jaws;
and dividends.

In the medium-term, we will seek to generate an average return on equity that exceeds our cost of equity over the cycle.

In the short-term, I don’t pretend that generating a return in excess of the cost of equity will be simple…

…because we will continue to hold high levels of capital, and the cost of equity for banks is likely to remain high.

2010 is only a few weeks old.

But we’ve had a strong start.

Profit in January exceeded the monthly run rate of the first half 2009…

…and of full year 2009.

As we look ahead…

…we are very focused on our obligation to deliver...

…another year of substantial profitability.

Thank you. We’ll take your questions now.