2010 Q3 Interim Management Statement

9 November 2010

Chris Lucas

Good morning and thanks for joining us.

I'll run through the business performance and then talk in a little more detail about areas that we're focused on including impairment, costs, and capital.

In general my comments compare the first nine months of 2010 with the same period for 2009 though in some places, most notably Barclays Capital, I'll comment on third quarter performance where it gives you a better idea of the trend.

You'll find a quarterly break down of the Group and Barclays Capital performance in the announcement, and in the interests of clarity I'm also using a few slides today, which are available on our website and are being webcast as I speak.

Turning to the first slide….

Slide: Highlights

Our profit and income performance has been resilient, returns on risk weighted assets have increased as we continue to focus on returns before growth, impairment is down significantly, and the strength of our capital, leverage and liquidity position makes us well placed to meet new regulatory requirements implemented over the next decade.

We've continued to support the UK economy and our new lending to UK businesses and households has increased 34% to £35 billion compared to the same period in 2009.

Moving to the headlines at a Group level on the next slide…

Slide: Group Results

Profit before tax grew 4% to £4.3 billion.

When we take into account the impact of own credit, gains on acquisitions and disposals, and gains on debt buy backs, adjusted profit before tax was 4.2 billion, an increase of 6% on the same period last year.

Income was 2% higher at £22.9 billion.

The annualised net interest margin for GRB, Barclays Corporate, Barclays Wealth and Absa was broadly stable compared to the half year.

Impairment of £4.3 billion improved by 31% year on year resulting in a 15% increase in net income.

Operating expenses grew 18% to £14.5 billion as a result of:

continued investment in the business,
increased regulatory costs,
higher net pension charges,
and the impact of foreign exchange rates.

I'll give you a more detailed breakdown of this later.

Our core Tier 1 ratio was 10% at the end of September.

Year to date, return on equity was 7%, on tangible equity it was 8%, and return on risk weighted assets was 1.1%, up from 1% for the same period last year.

Earnings per share were 21.3 pence and we're announcing an interim dividend for the third quarter of one pence bringing dividends for the year so far to 3 pence.

Global Retail Banking

I'll turn now to the divisional performance starting with Global Retail Banking where profits fell 9% to £1.4 billion partially reflecting higher net pension charges across the businesses.

Income was broadly stable at £7.8 billion.

UK Retail Banking

In UK Retail Banking profits grew 20% to £734 million, including a gain of £100 million on the acquisition of Standard Life Bank.

Income grew 4% as a result of increased volumes partly offset by lower margins.

Impairment improved 14% compared to the same period in 2009, largely in consumer lending.

Costs grew 12% mainly as a result of higher pension charges.

Customer deposits and loans were both up 18% including Standard Life Bank.

Most lending was in the UK mortgage book where gross new lending amounted to £20.6 billion resulting in net new lending of £4.8 billion.

Barclaycard

At Barclaycard profits of £561 million were broadly stable year on year.

There's been profit growth in each quarter this year as a result of improved impairment particularly in the US, where 90 day delinquency rates declined significantly.

Income was slightly lower as a result of the US Credit Card Act and cost growth was largely the result of higher pension charges.

Western Europe Retail Banking

In challenging economic conditions, Western Europe Retail Banking incurred a loss of £34 million.

When you compare this with the first nine months of 2009, you should bear in mind that there was a gain last year of £157 million from the sale of a stake in our Spanish life and pensions business

Income decreased 8% as a result of lower Treasury income and liability margin compression.

Impairment improved 9% year on year with lower delinquency levels in all products though as house prices have continued to decline in Spain we've increased our loss severity assumptions there.

Costs grew 15% as we continue to build scale in these markets with the acquisition of two card businesses in Italy and Portugal and the addition of 148 new distribution points in these countries in the last 12 months.

The total number now stands at over 1300.

Western Europe now comes under the direction of Deanna Oppenheimer, Vice Chair of Global Retail Banking.

Generating an appropriate return on our current investment in the face of significant headwinds is the top priority for this business.

Barclays Africa

Profits at Barclays Africa increased 14% to £106 million, income grew 9%, and impairment improved 30% year on year.

Cost growth of 11% was the result of continued investment in infrastructure and higher staff charges.

Moving on now to Corporate and Investment Banking ....

Starting with Barclays Capital where profit before tax excluding own credit, grew 22% to £3.3 billion.

If you turn to the next slide I'll take you through the income performance.

Slide: Barclays Capital results

Top line income, before credit market write downs and own credit, was £10 billion which is 30% down on a very strong year in 2009.

Fixed Income Currency and Commodities contributed £6.9 billion of these revenues, 1.5 billion came from Investment Banking, with Equities and Prime Services delivering 1.4 billion.

Taking into account a reduction in credit market losses of £4 billion and losses relating to own credit of 96 million total income grew 11% to £9.6 billion.

After a decrease of £1.9 billion in credit market and other impairment, net income grew 44% to 9.3 billion.

Impairment charges were £321 million.

Looking at the quarterly trend, top line income for the third quarter was £2.8 billion, a 14% reduction on the second quarter.

Fixed Income Currency and Commodity revenues in the third quarter were 14% lower than the second quarter reflecting lower client volumes though we saw some pick up in Fixed Income in August and September especially in primary activity.

Equities and Prime Services decreased 36% quarter on quarter with subdued market conditions for Equity Derivatives and strong growth in cash equities from a relatively small base reflecting the build out of our business in Europe and Asia.

To give you some idea of what that build out has entailed in Europe, we now have over 400 staff in equities, our research covers almost 350 companies, and we're ranked third for rights offerings across Europe, the Middle East and Africa.

In Japan, we have 135 staff, our research covers over 160 companies and we're ranked Top 5 for research in 8 sectors.

We also have over 100 staff in Hong Kong, and we'll start research coverage there and in Taiwan later this year with China, India and Korea scheduled to follow next year.

Investment Banking revenues grew 9% on the second quarter.

We ranked 4th globally and in the US we ranked first for completed M&A year-to-date.

We expect the income run rate in Equities and Investment Banking in Europe and Asia to increase as the investment in these franchises is completed.

Moving on now to Barclays Capital operating expenses costs grew 21% year-on-year as a result of investment in infrastructure and the build out of Equities and Investment Banking.

The third quarter was the lowest of the year, as expenses decreased 13% compared with the second quarter.

The cost to net income ratio, excluding own credit, was 65%.

This reflects our decision to invest in relatively high cost businesses which have better return on equity characteristics while at the same time operating within our target range of 60 to 65%.

Compensation costs represented 43% of income, excluding own credit. This reflects an increase in headcount of 2000 to just over 25,000 as well as the cumulative effect of accruing deferred payments.

You've heard me say before that no decisions on compensation are made until we know the outcome for the year.

Those decisions, when they are made, will fully comply with FSA requirements.

Barclays Corporate

Turning now to Barclays Corporate where we reported a loss before tax of £414 million as losses in Continental Europe and New Markets more than offset profits in the UK and Ireland.

Profits in the UK and Ireland were £575 million.

Underlying profit growth was 7%, excluding a one off gain on debt buy backs last year.

In Continental Europe, losses increased to £712 million, mainly as a result of higher impairment charges in Spain.

Spanish impairment for the third quarter of £198 million was at a lower run rate than the first half when the charge was £553 million.

This was mostly the result of loan loss severity rates rather than delinquencies.

In New Markets, which comprises corporate and retail banking in India, Pakistan, Russia and the UAE there was a loss before tax of £277 million including restructuring costs of £94 million.

Excluding restructuring costs, the loss in New Markets was a 39% improvement year on year reflecting lower impairment charges and reduced costs.

We're making good progress on reshaping businesses in New Markets and we'll give you more detail on the outlook for these businesses in the first half next year.

Barclays Wealth

At Barclays Wealth profits increased 9% to £122 million as a result of strong income growth in the high net worth business and slightly improved impairment offset by higher investment costs.

Client assets at the end of September were £158 billion which is £5 billion up on the half year.

This is the first year of our growth plan which entails incremental investment of about £350 million over the next 3 years

This year we expect to invest £80 million in the second half in addition to the £33 million we invested in the first half as we upgrade our platforms globally and recruit more client facing professionals in the US and Asia.

Absa

At Absa, profits increased 20% in sterling to £448 million including a one off pension credit.

These results reflect a 17% appreciation in the average value of the rand against sterling.

I said earlier that I'd give you more detail on costs, capital and impairment.

If you turn to the next slide, I'll talk you through costs in more detail.

Slide: Operating Expenses

Group costs for the third quarter were £4.8 billion which was the lowest quarter of the year.

Looking at cost growth of £2.2 billion year on year this includes over £900 million of investment, as well as regulatory and infrastructure costs of around £600 million.

The impact of foreign exchange rates and increased pension payments accounted for about £500 million.

Over 80% of investment was in Barclays Capital and Barclays Wealth.

The balance represents acquisitions such as Standard Life Bank and the card portfolios in Global Retail Banking as well as restructuring charges in Barclays Corporate.

Levels of continuing investment will be driven by our capital allocation and return requirements as well as our overall view of the business environment.

Regulatory cost growth includes:

a one off provision of just under £200 million in relation to non compliance with US economic sanctions,

a charge of about £80 million relating to Payment Protection Insurance claims in the UK,

and some £70 million of bank payroll tax.

I'll talk in more detail about capital on the next slide.

Slide: Risk Weighted Asset Pro Forma Projection under Basel III

As you've already heard, our current Core Tier 1 ratio at the end of September was 10% and our Risk Weighted Assets were £405 billion compared to £433 billion at the end of 2008.

RWA's have remained broadly flat since June 2009.

Bob Diamond said in a speech at the end of September that from what we know today we intend to manage through changes in regulatory capital requirements without turning to our shareholders for new equity.

I want to give you some colour on the analysis that underpins this view.

This slide shows our current estimation of the gross impact of Basel III on market risk, securitisation and counter party RWA's.

We've already disclosed that the gross impact on Risk Weighted Assets will be about £150 billion.

Our current estimate is that we can reduce this by about a third through:

tight control of risk weighted asset growth,
a focus on returns in our capital allocation process,
and other management actions, such as asset sales, changes in business mix and greater use of central clearing platforms.

Moving on now to look at the possible path of our Core Tier 1 capital ratio…….

Slide: Pro forma Core Tier 1 ratio under Basel III at 31 Dec 2013

…….the next slide shows that market consensus on retained earnings between now and the end of 2013 is equivalent to around 3.5% of core tier 1 capital.

When you add this to the capital generated from the exercise of outstanding warrants by October 2013, we're able to absorb the regulatory increases in Risk Weighted Assets as well as strengthen our Core Tier 1 capital ratio.

The ratio increases to 11.5% by the end of 2013 under this scenario.

Alternatively, if we wish to maintain our Core Tier 1 ratio at 10%, we have capacity to grow RWA's by £75 billion at the same time as absorbing the impact of regulation.

Impairment

Moving on now to talk about impairment this reduced by 31% to £4.3bn for the first nine months representing an annualised loan loss rate of 110bps.

As a result, we expect an improvement in impairment at the full year of about 30% compared to 2009, rather than the 15-20% reduction which we previously indicated.

Before we close I'd like to add a few words on current trading.

Group income in October was consistent with the run rate for the first nine months of the year and at Barclays Capital, top-line income was consistent with the run rate for the third quarter.

You've heard me refer to our focus on returns before growth this morning.

This is increasingly important for the way we run the businesses and we intend to share the results of work we're currently doing in this area as it progresses.

I'm happy to take your questions now and I'm joined by Robert le Blanc, our Chief Risk Officer; Jerry Del Missier and Rich Ricci, Co-chief Executives of Barclays Capital and Barclays Corporate; and Antony Jenkins, Chief Executive of Global Retail Banking.

Q&A

Post Q&A Summary

Thanks very much for your questions.

I'll quickly wrap up with what we see as the key headlines of our performance for the first nine months:

- our profit and income performance has been resilient,
- returns on risk weighted assets have increased as we focus on returns over growth,
- impairment is down significantly,
- and the strength of our capital, leverage and liquidity position makes us well placed to meet new regulatory requirements that will be implemented over the next decade.

We've continued to support the UK economy as our lending to UK businesses and households has increased 34% to £35 billion year on year.

That's all for today - many thanks for joining us.