

Société Générale Conference
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Speaking Notes

- I'd like to thank Société Générale for letting us speak this morning.
- I'll talk today about our performance in the first nine months of the year.....

.....and some of the trends and issues affecting our businesses.

- I will talk for 15 to 20 minutes and then will be happy to take your questions

Group Performance

- Looking at the group as a whole, we had a good nine months with profit before tax of £4.5 billion.

Income grew 26% to £23.8 billion,

which is more than the income we delivered for the entire year in 2008.

- Excluding own credit, gains on acquisitions and disposals, and gains on debt buy-backs

profit more than doubled from £2.0 billion to £4.4 billion.

This was achieved despite absorbing credit market write-downs of £5.7 billion,

of which £4.3 billion was reported in the income line

and £1.4 billion was taken in impairment.

- **Total** impairment charges for the group were £6.2 billion.

I'll talk more about impairment later.

- Group costs grew 19% to £13.2 billion reflecting
the enlarged operations and business growth in Barclays Capital
as well as a one off credit of £371 million
resulting from the closure of the UK final salary pension scheme.

The rate of cost growth was 7 percentage points lower than that of income growth.

- Earnings per share were 25.3p for the nine months to date and 7.8p for the third quarter.

Global Retail and Commercial Banking

- In **Global Retail and Commercial Banking**, profit before tax was £2.2 billion.

Income grew 11% against cost growth of 4%

resulting in positive jaws of 7%.

UK Retail

- Moving to the individual businesses, I'll start with UK Retail Banking

where margin compression was partly offset by

excellent income growth in mortgages

and our interest rate hedging programme.

- Impairment charges grew at a lower rate than in the first half.

More than half the increase was in consumer lending and overdrafts

and mortgage impairment remained low by industry standards.

- We brought **costs** down by continued tight control of discretionary spending.

- We also continued to generate positive net new lending:

our mortgage book increased from £82 billion to £86 billion over the first nine months

and lending in local business was up 4% over the same period

- Savings accounts grew to £60 billion and deposit balances overall were up 2%.

- **Profits** in UK Retail were significantly impacted by the economic environment.

- In October we announced the acquisition of Standard Life Bank, adding a savings book of about £5.5 billion,

which enables us to grow our UK Retail Bank liabilities by a further 6%.

We also bought a mortgage book with outstanding balances of about £8.8 billion.

The average loan to value at current values is 48%

so the quality is broadly in line with our existing book.

We expect the deal to complete in the first quarter of 2010, subject to regulatory approval.

Barclays Commercial Bank

- In Barclays Commercial Bank, income was broadly stable as liability margin compression was partly offset by improved asset margins, and higher fees and commissions from the sale of Treasury products.

In addition there was a one off gain from a debt buy back which we reported in the first half.

- Higher impairment reflected current economic conditions, the impact of declining asset values, and increasing default rates.

We continue to benefit from a **diversified** loan book in the commercial bank

with limited exposure to high risk sectors.

The five largest impairment charges in the first nine months amounted to **£83** million in total

and the biggest **single** charge within this was **£25** million.

- We reduced expenses by tight cost control.

Barclaycard

- In Barclaycard there was very strong income growth driven by higher customer balances and improved margins.

More than half this growth was in the international business.

- Impairment continued to grow, though the rate of growth declined in the third quarter.

The majority of this was in our two largest portfolios, Barclaycard US and UK cards.

We've maintained our conservative approval rate and continued to reduce limits to new customers.

- **Costs** increased slightly due to the acquisition of Goldfish in 2008

which was partly offset by lower discretionary spending.

Western Europe

- In Western Europe very strong income growth was in line with that of the first half

resulting mainly from higher net interest income

driven by strong growth in customer balances.

- Profit growth benefited from a one off gain of £153 million,

following the completion of the Barclays life joint venture with CNP in Portugal and Spain.

- Cost growth was significantly lower than income growth.

It included restructuring costs in Spain

and continued expansion in Italy and Portugal.

70 new distribution points have been added in Western Europe year to date,

two-thirds of which are in Italy.

- The rate of impairment growth in the third quarter was lower than the first half

and the charge for the **third** quarter was lower than the **second** quarter.

Most of the impairment was in Spain in our commercial property portfolio.

Emerging Markets

- Emerging Markets continued to see very strong income growth without an equivalent growth in customer assets.

Income growth was well balanced between retail and commercial

and broadly based across the markets,

with an especially strong performance in Egypt, Botswana and the United Arab Emirates.

- There was strong profit growth in our established businesses in sub Saharan Africa and the Indian Ocean.
- The rate of growth in impairment was slightly higher than the first half

The majority of the growth was in the retail segment

and the markets that were impacted most were the UAE and India.

The highest **single** charge of £38m was in commercial banking in the UAE.

- Costs grew at a higher rate than income due to investment in infrastructure and roll out costs.
- Taken together, this resulted in a loss in Emerging Markets.

Absa

- At GRCB Absa, income was slightly ahead in rand terms
- Impairment continued to increase as a result of rising delinquencies in retail banking,

especially in mortgages and vehicle financing.

Discretionary cost control led to a reduction in operating expenses

and an improvement in the cost income ratio.

Overall, this resulted in a significant reduction in profit.

- We continue our cautious approach to asset growth in South Africa

and our focus is on continuing to grow customer deposits.

Investment Banking and Investment Management

- Turning to Investment Banking and Investment Management....
- Income grew 32%, largely driven by Barclays Capital.
- Profit of almost £2 billion was well above the same period last year

excluding a £1.5 billion gain on acquisition in 2008,

and the impact of movements in own credit.

Barclays Capital

- Moving to Barclays Capital, which delivered top line income of £14.2 billion,

before credit market write-downs and own credit charges.

This was almost double the same period last year

with a strong performance in interest rates, credit, equities and investment banking.

The US accounted for 43% of these revenues.

- Top line income for the **third quarter** of £3.7 billion reflected the usual seasonal impact and tighter spreads.

- Profits for the first nine months were £1.4 billion

or £2.7 billion excluding a charge on own credit.

- Credit market write-downs of £5.7 billion included

£4.3 billion in the income line

and £1.4 billion in impairment

Total impairment in Barclays Capital was £2.2 billion.

- Credit market exposures have reduced by £14.4 billion since the year end

including net sales and pay downs of £6.9 billion.

In addition, £5.1 billion of assets were sold to Protium Finance, as we announced in September.

Barclays Capital – Cost to net income ratio

- The cost to net income ratio at Barclays Capital increased slightly from 75% for the first half,
to 78% for the nine months.

Part of this increase reflects the cost of our build-out in Equities and M&A

which is borne in the P+L in advance of the expected revenue benefits.

- Our target cost to **net** income ratio for BarCap is in the 65 – 75% range
- Compensation decisions for 2009 will be taken in January as usual

but for accounting purposes we're accruing on a basis that's broadly consistent with prior periods.

We intend to be fully compliant with G20 guidelines as implemented in the UK.

Barclays Global Investors

- In Barclays Global Investors, profits increased in sterling but declined in dollar terms.

This was mostly due to the break fee paid to CVC during the first half,

which was partly offset by a reduction in the cost of support to liquidity funds.

- Assets under Management increased by £87 billion to £1.2 trillion,

and net new asset inflows continued in most asset classes.

- The sale of the BGI business completed yesterday, and generated a gain on sale of £6.2 billion.

Barclays Wealth

- In Barclays Wealth, profits decreased significantly as a result of the sale of the closed life fund in 2008

and the cost of integrating Barclays Wealth Americas,

the private investment management business acquired from Lehman,

which we expect to provide an important platform for growth from next year onwards.

- On a like for like basis, revenues were broadly stable
- Total client assets were in line with the year end.

Balance Sheet

- As far as the balance sheet is concerned, total assets grew by 5% between 30th June and 30th September,

mainly due to an increase in cash and highly liquid assets, as we further increased our liquidity buffer.

Adjusted gross leverage and risk weighted assets were broadly in line with June 30th.

Capital ratios

- As you know, our core Tier 1 ratio was 7.1% at the end of June

and our Tier 1 ratio was 10.5%.
- On a pro forma basis, taking into account the sale of BGI and the exercise of warrants in October, these ratios would have been 9.2% and 11.9% respectively, based on risk weighted assets at 30th June and the BlackRock share price on closing yesterday.

Outlook

- Moving to outlook.....
- Trading in October was consistent with trends in the first nine months of the year.
- With our Q3 IMS we indicated that we expected full year impairment to be around £9 billion.

There were relatively few large single name charges in the **third** quarter

though we typically expect a seasonal increase in the **final** quarter.

- We have seen no reason to amend this guidance following the recent developments in Dubai

GRCB Reorganisation

- As you know we announced a reorganisation last month into
Global Retail Banking
and Corporate and Investment Banking and Wealth Management,
with Absa, our South African subsidiary, reporting direct to John Varley
- We will be transferring the bulk of the commercial banking business out of GRCB to be managed by the BarCap management team
- We are doing this to maximise the business synergies between the corporate and investment banking operations
- We'll be restating the business segments with effect from January 1st
and will share the detail with you next March.

Regulation

- I have mentioned capital and liquidity already,.....
but I want to take a step back and summarise where we stand on regulation in key areas...
...capital, liquidity, leverage and other potential areas where regulation may affect us.
- In all these areas we have an active dialogue with regulators and politicians.....

.....and the most important thing for us is that there should be a level playing field for banks operating in London, New York, Paris etc..

- Regarding capital, I mentioned our pro-forma core tier one capital ratio of 9.2% as at 30 June 2009, reflecting completion of the BGI sale.
- Overall we are confident that we are in a good position to meet any capital ratio increases that may be required.
- I mentioned that we have been increasing our liquidity in anticipation of new FSA rules.

With £110 billion of liquidity buffer at 30th September, up from £36 billion at the start of the year,

We are well placed to manage the anticipated regulatory increase.

- With regard to leverage ratios we have reduced leverage, the way we measure it, to around 20 times proforma from 28 times at the start of the year.
- In other areas that regulators are focusing on we have stated that we will comply with the G20 guidelines on performance related compensation...

.....and we are ready to respond to any requirements on so called "living wills".

Summary

- So to sum up on performance, we've had a good nine months with profit before tax of £4.5 billion.

Very strong income growth of 26% was significantly higher than cost growth.

The rate of growth in impairment slowed in the third quarter,

though we expect impairment to grow in the short term.

We've continued to strengthen our capital ratios
and liquidity position

and we've resumed payment of a cash dividend.

- Regarding resumption of dividend payments, we had announced at the AGM that we would resume payments from the third quarter.

Given the desire for strong capital ratios we expect to distribute a proportion of profit after tax

that's significantly lower than the 50% maintained in recent years.....

....and we announced with our third quarter IMS that we would pay an interim dividend of 1 pence per share.

- Thanks very much I'm now happy to take your questions.