BARCLAYS

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Antony Jenkins

Slide: Name slide

Good morning everyone.

I'm Antony Jenkins, Chief Executive of Barclays Retail and Business Banking and I am joined by my colleague, James Johnson, our Investor Relations Director.

I would like to thank KBW for giving me this opportunity to speak again this year.

Let me start by running through what I'll cover in today's presentation.

I'll begin by reviewing our 4 key execution priorities and how Barclays is delivering against them.

I'll then give you an update on the progress of the strategy which I laid out last year for Retail and Business Banking, or RBB. You'll see that we have made significant progress.

Then, given current market conditions, I will spend some time on our Euro zone exposures and our capital, liquidity and funding position; as well as our response to the ICB report from last week.

I'll speak for about 20 minutes which will give us time for Q&A afterwards.

Slide: Execution

Barclays remains focused on our 4 key priorities:

Capital Strength, Returns, Income Growth and Citizenship.

I'll come back to Capital later, so let me start with Returns targets and how Barclays is delivering against them.

We set a target in February to generate a Return on Equity of 13% by 2013 and with greater certainty, now that the ICB have published their report, we remain committed to that target.

There are signs of good progress in our underlying numbers.

Our Adjusted Return on Equity rose to 9.1% in the first half from just below 7%.

Our return on tangible equity grew to just under 11%. This was driven by 24% profit growth, excluding PPI and own credit.

We have three world class businesses – Retail and Business Banking in the UK, Barclaycard and Barclays Capital.

These are businesses that operate in the very top tier of their industry.

As we have said previously, they have scale, technology, brand and customer depth and breadth.

All three delivered an adjusted return on equity above 13% in the first half this year.

As you know, we apply a Core Tier 1 ratio of 10% to all our businesses.

UK Retail and Business Banking reported an adjusted Return on Equity of 15%, at Barclaycard it was 16%, and Barclays Capital generated a return of 15%, even in a soft trading environment.

Together these three businesses account for two thirds of our risk weighted assets and two thirds of our capital.

In addition we have two businesses that have the potential to become top tier, Wealth and Africa. Both show continued progress.

Then there are two businesses where we recognise we have more to do:

Corporate Banking and Retail and Business Banking in Europe.

Barclays Corporate returned to profitability in the first half.

This is a very significant improvement on the negative return last year though clearly we still have much further to go.

Europe Retail and Business Banking was loss-making due to the costs of restructuring that business.

In particular, we are reducing headcount and the size of our branch network in Spain.

The business now has strong leadership and is in much better shape for this environment.

It will return to profitability in the second half of this year and deliver positive returns going forward.

Disciplined cost management is also critical to delivering returns and will give us flexibility to navigate challenging market conditions

We held costs flat in the first half and expect to deliver a reduction of £250 million for the full year, net of restructuring.

We believe we will comfortably exceed our savings target for 2013 of a billion pounds because we are running Barclays in a more integrated and efficient way.

Our third execution priority, income growth, is also an important part of delivering returns and though the environment has been challenging, those areas where we are investing are beginning to deliver.

For example, in Barclays Wealth first half income grew 12% and is continuing to operate ahead of plan.

Our fourth priority is citizenship and for Barclays this embraces several key elements: it's about the way we behave, in particular the way we treat customers and clients, it's about the way we help our customers and clients create jobs and economic growth, and it's about the way we support the communities in which we work.

Slide: Our 2013 commitments

I'm now going to turn to the progress of our strategy at RBB.

As I said earlier, you will see that we have made significant progress.

Here briefly are the commitments that we set out last summer for 2013.

First, happy customers. I said we'd improve customer satisfaction and reduce complaints, to differentiate ourselves from the competition and drive sustainable business growth.

Second, a strong financial performance. In a subdued economic environment, we committed to relatively solid income growth and positive operating jaws, delivering strong profit growth.

Third we promised to deliver a minimum return on equity of 13% based on rigorous portfolio management.

Fifteen months on, we are absolutely on track to deliver these commitments.

The last year and a half has seen increasingly rapid change in the countries in which we operate.

Competition has intensified with new entrants, such as Tesco, Virgin Money and Metro Bank in the UK.

Rapid technology changes are transforming the customer experience and increasing their expectations about how we interact with them.

And the voice of the customer has never been more important, reinforced by increased scrutiny from regulators and media.

Given this context, we believe our customer-centric approach remains absolutely the right one.

Slide: Driving the customer agenda

Over the last year we have delivered significant improvements to our customer's experience, in 2 main ways:

First we've focused on getting the basics right, with greater automation and simpler processes.

That has delivered real and meaningful cost reductions through lower servicing costs and fewer complaints.

Second, we've used customer insight to differentiate ourselves and to drive income growth through product and channel innovation.

Here are some examples.

In the UK we've re-engineered our account opening process for business accounts. 75% of accounts are now opened in 24 hours. It used to take over a week!

Error rates have been significantly reduced and we expect to deliver cost savings of £1million per annum.

In Barclaycard, we've improved the process for managing declines due to fraud risk for corporate cards.

The number of declines has reduced by 40% since the start of the year resulting in a significantly better customer experience.

And at the same time, this initiative contributed to fraud losses being at an all time low.

I said that the second driver of benefit for shareholders was from innovation in channels and products driving income.

A year ago we had mobile banking in 4 countries. Now we offer it in 6 and will roll it out to another 5 by the end of the year.

We've introduced new products to better meet customers' needs in these tough times.

One example in the UK is our award-winning “Great Escape” product, which offers customers zero fee mortgages and the choice of switching from a variable to a fixed rate with no early repayment charges.

Since its launch in quarter four last year we have received over 30,000 applications from customers looking to remortgage from our competitors.

And in Italy in February this year we launched the award winning “Conto 3% plus” account. This profitable product has already won an award for the Current Account with the Best Return from a leading independent research institute and has attracted approximately 1.2 billion euros in deposits.

There are lots of other examples, but that’s enough to give you a flavour of how we are delivering an improved customer experience.

But this strategy doesn’t just benefit customers. It benefits shareholders through sustained income growth; reduced costs and focused risk management leading to return on equity.

Slide: Delivering 13-15% ROE

Last year we said that despite subdued economic growth and the challenging regulatory environment, our customer-focused strategy would deliver good income growth in RBB. And it did.

Our customer centric strategy will continue to grow share in attractive products and segments as well as build new income streams through product innovation. Together, these should offset the limited impact from potential margin expansion in the UK.

We have a clear roadmap to deliver income growth in the current macroeconomic environment.

Our group cost target is to reduce run rate by a minimum of £1bn by 2013.

Last year RBB indicated strong cost management from 2010 to 2013 would maintain positive cost income jaws.

And we will drive 500 million pounds of savings through to 2013, net of restructuring costs.

So what does all this mean for returns?

We're continuing to improve returns using a disciplined approach.

Every portfolio and all new business will remain under tight scrutiny. We will not hesitate to take tough decisions where business does not meet our return hurdles, as we did when we closed Barclays Financial Planning earlier this year.

All new business flows must meet or exceed the minimum hurdle for returns.

We are taking strong action to improve returns in Europe and for this business we will achieve 13% return on equity by 2015.

RBB as a whole remains on track for delivering a minimum 13% return on equity by 2013.

We've delivered what we promised and reiterate our commitments for 2013.

Slide: Exposure to Spain, Italy, Portugal, Ireland & Greece

As I mentioned earlier I'd now like to focus on 3 topics of particular relevance given current market conditions. I will cover Barclays euro zone exposures as well as our capital, liquidity and funding position.

We recognise there are concerns about Greece, Italy, Spain, Portugal and Ireland so we have given a detailed breakdown of our assets in these markets in terms of the businesses they relate to, the nature of the risk, and how we manage that risk.

The majority of our exposure – £44 billion – relates to retail banking activities.

Almost all of this is mortgages, mainly on first homes with low Loan to Value ratios, in Spain Italy and Portugal.

Our Corporate Assets total about £14 billion.

We took substantial provisions up front on this portfolio and our impairment charges are now declining and we expect that to continue.

Our sovereign exposure of £11.6 billion is all fair valued. 70% is held to hedge interest rate risk relating to our local businesses:

Over half has a remaining life of under 2 years and is being replaced by swaps.

30% of our sovereign exposure is in our trading and derivative portfolio resulting from our role as a leading primary dealer, market maker and liquidity provider to our clients.

The remaining assets – less than £7 billion- relate to financial institutions and normal interbank activity.

A significant part of this is to strong financial institutions with administrative centres in Ireland, but with little direct Irish exposure.

I haven't mentioned Greece - our exposure there is minimal.

In summary, our exposures in these markets are not speculative. They are primarily in retail, largely secured, and we're managing our risks carefully.

So we're confident about the assets that we own and the values at which they're held.

Slide: Capital, Liquidity & Leverage

You will recall that in 2008 Barclays signalled we would get ahead of regulatory change by ensuring we have a strong capital position.

Our Core Tier 1 ratio has doubled since then to 11%.

Our Tier 1 capital has grown to 13.5% and our total capital, including Tier 2, now stands at 17%.

One reason for this is our own ability to generate capital.

Since 2008 we've generated £8.8 billion of equity and virtually the entire increase in our Core Tier 1 ratio in the last 18 months has resulted from our underlying profit performance.

We've also reduced leverage to 20 times and our surplus liquidity has increased to £145 billion.

£85 billion of that pool is cash held with central banks, £25bn is in UK government bonds, and a further £24bn is in other government bonds including Switzerland, the US, and Japan.

Despite market volatility our funding position is very strong.

We've raised £54 billion in term liabilities over the last 18 months, and we priced a 2 billion Euro 3 year covered bond at 52 basis points over mid swaps on August 31st .

So we're accessing funding, cost effectively, even though the markets have tightened.

Our liquidity stress tests show that, even in the worst case scenario, where the wholesale markets close completely, we have a significant buffer period without taking any management action.

In addition, our surplus liquidity pool covers an entire year of wholesale maturities.

In summary, Barclays continues to operate with rock solid capital and rock solid liquidity.

Slide: Independent Commission on Banking

The Independent Commission on Banking published its final report last week after 15 months of careful deliberation.

This publication represents a welcome step towards the greater clarity that banks need, to be able to operate with confidence.

I know the major question you have is what the cost of this will be for Barclays but as you will understand, there is still a lot of work to be done.

The report calls for changes in UK law, changes in international law, and coordination with international regulation.

There are many steps yet to be taken, and until we know the full details, it is difficult to quantify the impact.

So let me focus instead on the key provisions of the report.

We welcome the ICB's recognition that the benefits of diversification in banking models should be retained both for the good of clients and for the internal synergies that exist.

And as the Chancellor said, the goal has to be for Britain to be the home of successful international banks.

It's important that our shareholders will continue to be able to access both retail and institutional earnings.

We also welcome the fact that the report's recommendations leave flexibility to determine the detail of implementation.

This allows for the definition of the ring fence to be aligned with the shape of our retail and corporate banking businesses and with the work we have already done on recovery and resolution plans.

As we've already said, ring fencing is not our first choice but we believe we can make it work.

Looking at the capital recommendations, for example, the requirement for a Core Tier 1 ratio of 10% in the ring-fenced entity was as expected.

As you know, at the half year Barclays Core Tier 1 ratio was 11%.

The report also calls for primary loss absorbing capital of 17 to 20%.

Currently our Tier 1 and Tier 2 ratio amounts to 17%, and our total potential loss absorbing capital is more than double that.

The timeline for implementation, which runs until 2019, is critical for banks to accommodate the changes while continuing to support the economy.

Barclays has a strong track record of adapting its business model to deliver for shareholders and this timeline gives us confidence in being able to continue to do that.

Slide: Execution

In conclusion, we recognise that markets are unnerved by fears about the future of the Eurozone, and by the prospect of low economic growth.

Against that background of uncertainty and lack of confidence, we are clear about our priorities.

We have strengthened our capital position, we are focused on returns, we are investing selectively for growth and we continue to deliver against a lens of customer focus and global citizenship.

Our three world class businesses, which account for two thirds of our capital, delivered a return on equity of 15% or more in the first half; we're investing in our two businesses with potential to become top tier and they are generating strong income growth; and we have made progress with those businesses that need work.

In short, we remain focused on delivering our commitments and are on track to deliver a Return on Equity of 13% by 2013.

Thank you – James and I will now take your questions.