2010 Full Year Results

15 February 2011

Chris Lucas

Thanks and good morning.

I’m pleased to report that Barclays delivered a strong performance in 2010.

Group performance

Group profit before tax grew 32% to £6.1 billion.

Excluding movements on own credit, and gains on acquisitions and debt buybacks adjusted profit grew 11% to £5.5 billion.

Financial Summary

Income increased 8% to £31.4 billion and impairment charges of £5.7 billion improved 30% year on year resulting in a 22% increase in net income.

Expenses grew 19% to £20 billion resulting in a cost income ratio of 64% and a cost to net income ratio of 78%. I'll give you a detailed breakdown of costs later.

Our Core Tier 1 ratio increased to 10.8 %, return on equity improved to 7.2%, on tangible equity it was 8.7%, and return on risk weighted assets increased 26 basis points year on year to 1.12%.

Earnings per share grew 26% to 30.4 pence and we announced a final dividend today of 2.5 pence. The total dividend for the year of 5.5 pence was more than 5 times covered.
I'll move on now to Global Retail Banking, where there is growing momentum.

**UK Retail Banking**

In UK Retail Banking, profits grew 39% to £989 million including a gain of 100 million on the acquisition of Standard Life Bank.

Income grew 6% to £4.5 billion as a result of increased volumes.

Impairment improved 21%, largely in unsecured lending, and expenses grew 11%, reflecting higher pension costs, the impact of Standard Life Bank, and of regulation.

**Barclaycard**

At Barclaycard, profits increased 9% to £791 million, mainly as a result of improved impairment. All parts of the business were profitable.

Both income and costs were broadly stable. Income benefited from business growth which was offset by the impact of regulation, mainly in the United States.

**Western Europe Retail Banking**

Western Europe Retail Banking incurred a loss of £139 million compared to a profit of £280 million in 2009.

We remained profitable in Portugal and France but incurred losses in Spain and Italy, mainly as a result of margin compression.

2009 profits included one off gains of £183 million.

Income decreased 12% to £1.2 billion due to margin pressure and a 4% appreciation in the average value of sterling against the euro.
Impairment charges improved 7% to £314 million.

Costs grew 16% to £1 billion as we expanded the cards businesses in Portugal and Italy.

**Barclays Africa**

Profit at Barclays Africa increased 81% to £188 million, including £77 million from the sale of the custody business.

The three biggest contributors were Kenya, Botswana and Mauritius. Income grew 8% to just over £800 million, impairment charges improved 32% to £82 million, and costs increased 13% to 608 million.

**Absa**

In South Africa, Absa Group reported profit growth of 20% to 11.9 billion rand this morning.

Excluding cards, investment banking and wealth management which are all reported within those businesses in Barclays.

Profits in the Absa segment grew 17% to £616 million reflecting appreciation in the average value of the rand against sterling of 16%.

**GRB and Absa**

Bob will mention later our plan to align Absa more closely with Barclays Africa.

If I look at all our Retail Banking activities, including Absa, profit before tax grew 4% to £2.4 billion.
I’ll move on now to Barclays Capital…….

**Barclays Capital**

…….where top line income of £13.3 billion was down 25% on a very strong year in 2009

Fixed Income, Currencies and Commodities contributed £8.8 billion; £2.2 billion came from Investment Banking; and Equities and Prime Services delivered £2 billion.

Taking into account credit market losses, own credit, and impairment charges net income grew 45% to £13 billion.

Impairment charges reduced to £543 million from £2.6 billion in 2009.

The 2010 charge included £532 million taken against our loan to Protium which we’ve impaired at a level equal to the fair value of the underlying assets.

Costs grew 26% year on year, reflecting both compensation costs and investment in front office trading and sales, including the build out of our Equities and Advisory businesses.

The compensation charge for 2010, which includes deferrals from prior years, represented 43% of income, excluding own credit.

The cost to net income ratio, excluding own credit, was at the top of our target range at 65%, as we consciously maintained investment spend.

We remain committed to a range of 60 to 65%.

2010 performance awards, excluding deferrals from prior years, were down 12% to approximately £2.6 billion.

I’ll talk more about compensation later.

Profit before tax, excluding own credit, grew 2% to £4.4 billion
Average daily value at risk decreased 31% to £53 million during the year, this reflected lower levels of client activity.

Barclays Capital quarterly top line income

Looking at quarterly top line income of £3.4 billion, we’re pleased that the fourth quarter was up 20% on the third quarter.

Within this, Fixed Income, Currencies and Commodities were broadly in line with the third quarter while Equities increased 74% and Investment Banking grew 45%.

Barclays Corporate

Barclays Corporate reported a loss before tax of £631 million

Profits in the UK and Ireland increased 16% to £851 million, reflecting good income performance, well controlled costs and improved impairment.

In Continental Europe, losses grew to £870 million, mainly as a result of higher impairment charges in Spain.

These reduced 38% to £345 million in the second half as we took early action to manage our risks.

Conditions this year will remain difficult though we expect impairment in Spain to continue to improve relative to 2010.

In New Markets, which comprises our businesses in India, Pakistan, Russia and the UAE, there was a loss before tax of £612 million.

This included a write-down of goodwill in Barclays Bank Russia of £243 million as we reconfigured the business, and total restructuring costs of £119 million, most of which resulted from the closure of our business in Indonesia.
Bob will talk more about Barclays Corporate later.

**Barclays Wealth**

Profits at Barclays Wealth increased 14% to £163 million as a result of income growth of 18% to £1.6 billion, largely in the high net worth business.

Impairment was broadly in line with 2009 and costs grew 19% as a result of business growth and of incremental investment of £112 million during the first year of our 5 year growth plan.

Total client assets at the end of December were £164 billion, up from £151 billion at the end of 2009.

**Returns on Equity**

We allocate capital to business units based on an assumed Core Tier 1 ratio of 9% and we retain excess capital at Group Centre as a buffer.

This results in lower Group returns than the average of the underlying businesses.

Returns lie at the heart of our capital allocation process and as you can see, all of our businesses except Western Europe Retail Banking and Barclays Corporate had returns on tangible equity in excess of the 2010 cost of equity of 12.5%.

**Returns: Cost of Equity**

The cost of equity has been at unprecedented levels for the last two years.

Our latest calculation of our cost of equity for 2011 is now 11.5% and we expect to see a decline to more normal levels over the next couple of years as economic conditions improve and market volatility declines.
Moving on now to look at margins.....

**Margins**

There continues to be strong competition for deposits which resulted in further liability margin compression.

This has been partly offset by some increase in asset margins, for example in UK mortgages where we’re writing new business at attractive margins.

We remain cautious about overall net interest margins as we move into 2011 but we’re confident in the strength of our market positions especially in the UK, where we continue to pick up market share.

We also benefited from our product and equity structural hedges which contributed £3.2bn in 2010.

This included a one off gain of about £500 million from the sale of gilts as we optimised our hedge maturities.

Excluding this, we expect fixed receipts from these hedges to be broadly stable for the next couple of years.

Despite benefiting from our hedges, good asset margin growth of 14 basis points was more than offset by compression of liability margins.

I’ll give you more detail now on impairment, costs and the balance sheet.

**Impairment Improvement**

Impairment has continued to improve across all our businesses with one exception which is the corporate portfolio in Spain. Even this portfolio has seen an improving trend in the second half and we expect this to continue in 2011.

The most significant reduction during the year was in Barclays Capital where single name losses were very small.
In Global Retail Banking there was an overall improvement of 12% across all the portfolios.

Based on current trends we expect continued improvement in impairment across the Group in 2011, albeit at a lower rate.

**Operating expenses**

This slide shows a breakdown of cost growth over the year.

We’ve taken a conscious decision as impairment improved to re-invest in the business, and the most significant increase during the year was investment of £1.2 billion.

This included £805 million in Barclays Capital from front office trading and sales, and the build out of our Equities and Advisory businesses.

The charge for prior year compensation deferrals increased by £656 million.

Goodwill and Restructuring reserve increased by £486 million including the write down of goodwill in Russia and restructuring costs in Barclays Corporate that I told you about earlier.

Regulatory charges include a one off provision of £200 million in relation to non compliance with US economic sanctions.

**Performance costs**

Discretionary and contractual performance awards for 2010, exclude deferrals from prior years, but include guarantees, commitments and commissions.

2010 awards for the Group, which includes deferrals to future years, were down 7% on 2009 at £3.4 billion. This is despite profit growth of 32% and
income growth of 8%. These awards amounted to 13% of Group net income, down from 18% in 2009.

Within this, 2010 awards for Barclays Capital decreased 12% to approximately £2.6 billion. This represented 20% of net income in Barclays Capital compared to 33% in 2009.

These awards were fully compliant with all regulatory requirements and the agreements made under Project Merlin.

Part of the compensation for Managing Directors across the Group will be delivered under a new Contingent Capital Plan. These payments are deferred over 3 years and will not be made if the Group’s Core Tier 1 capital ratio falls below 7%.

The reported charge under IFRS for 2010 includes the prior year deferrals and excludes awards deferred to future years. A reconciliation to the published numbers is in the appendix.

**Balance sheet strength**

Moving on to look at the balance sheet total assets grew 8% to £1.49 trillion.

The biggest increases were in cash and balances at Central Banks as a result of boosting our surplus liquidity as well as in reverse repo lending which is fully collateralised.

Gross new lending to UK households and businesses increased to £43 billion, including 7.5 billion from Standard Life Bank.

Adjusted gross leverage was stable at 20 times.

We currently expect to add about £50 billion of risk weighted assets as a result of regulatory requirements for market risk which will impact our capital ratios from the end of the year.
We continue to manage balance sheet growth carefully while ensuring we have the lending capacity we’ve committed to in the UK for 2011.

In light of this expected increase in RWA’s, and of ongoing regulatory uncertainty, we will maintain our conservative but progressive dividend policy.

**Capital Management**

Core Tier 1 capital at the end of December was 10.8%.

On a net basis, equity generated from retained profit, excluding own credit, accounted for almost all this increase.

The combined impact of business growth and increased conservatism in the way we calculate risk weighted assets accounted for a negative movement of 0.2%.

Bob will talk later about capital going forwards.

**Funding and liquidity**

We’ve also continued to improve our funding profile. Surplus liquidity at the end of December amounted to £154 billion.

For Basel III purposes, we estimate our liquidity coverage ratio was 80% compliant.

We raised a total of £35 billion equivalent in term secured and unsecured debt from the wholesale markets in 2010. This was at competitive spreads relative to our UK peers. This issuance fulfils about one third of our term refinancing requirement for 2011 and we expect to raise roughly the same amount again during the year.

**Summary**
So to conclude Barclays delivered a strong performance in 2010

Profits grew 32% to £6.1bn, income was up 8% to £31.4bn and impairment improved 30%.

We continued to manage our balance sheet proactively with a Core Tier 1 capital ratio of 10.8%

Returns on risk weighted assets improved to 1.1%.

Gross UK lending increased to £43 billion, and the total dividend for the year was 5.5 pence, more than double the dividend for 2009.

Thanks very much – I'll hand over to Bob now.