Interim Results 2009

03 August 2009

Chris Lucas

Good afternoon and thanks Marcus

We delivered profits of £3 billion in the first half

and at the same time we strengthened our capital ratios,

reduced our balance sheet and leverage,

and improved our liquidity.

We've achieved this as a result of very strong income growth

which has enabled us to absorb further credit market losses

and rising impairment in a weak economic environment.

The strength of this performance is thanks to the diversification of our business model - the universal banking model.

In general my comments today compare the first half this year with the first half in 2008.

Starting with the group as a whole, profit before tax was £3 billion- up 8% year on year

There was very strong income growth of 37% to £16.3 billion

with especially strong performances in Barclays Capital and Barclaycard.

Impairment charges for the group increased to £4.6 billion.

The annualised loan loss rate for the first half was 144 basis points,

assuming constant currency rates and balance sheet size.

Robert will talk in more detail about our impairment experience and outlook later.

Costs grew 30% to £8.7 billion, with the majority of growth attributable to the Lehman acquisition

Costs grew at a lower rate than income and

the cost income ratio improved from 57 to 54%.

Earnings per share were 17.5 pence and the return on equity was 10.1%.

John will talk about our return on equity goals later.

I'll take you through the performance by division now

starting with Global Retail and Commercial Banking

where profits for the first half were £1.26 billion.

Income grew 14% in difficult market conditions

with growing impairment and pressure on deposit margins in a low interest rate environment.

Turning to the individual businesses

UK Retail Banking delivered profits of £268 million

Income decreased 8% as strong income growth in mortgages and consumer lending was more than offset by deposit margin compression.

Impairment increased to £469 million, mainly in UK consumer lending, as a result of the weak economic environment.

Costs grew 6%

reflecting the non repeat of gains from the sale of property of £65 million,
and increased pension costs of £54 million.
On a like for like basis, costs fell 4%.

There was net new mortgage lending of £2.2 billion in a market which grew by just £1.1 billion

and we advanced £6 billion gross over the half.

Mortgage balances grew 13% year on year to £84 billion.

Our risks were well controlled:

the average loan to value of the UK mortgage portfolio on a current valuation basis was 44%

and on new lending it was 46%.

Mortgage impairment charges were £35 million on an £84 billion book

and just 1.2% of our mortgages were over 3 months in arrears.

We've also gained new customers and won market share:

our Golden ISA attracted over 500,000 customers in the three months after launch;

savings accounts grew from 11.7 to 13 million year on year;

and for local business, which serves customers with a turnover of less than a million pounds,

we lent 28% more during this half than the same period in 2007, before the credit crunch began.

At Barclays Commercial Bank there was good income growth of 5%

reflecting strong fee income and sales of risk management products.

Profits declined to £404 million as a result of growing impairment and margin compression.

New term lending was £7.4 billion

though overall loans and advances were 7% lower than the year end,

largely as a result of a decrease in overdraft balances as businesses deleverage.

There was significant impairment growth to £467 million though we continue to benefit from the diversification of our loan book.

We have relatively low exposure to leveraged finance and property and construction sectors

and our largest single charge year to date was £25 million.

Costs were well controlled but the rate of cost growth at 9% was higher than that of income growth mainly as a result of the increase in pension charge of £35 million.

In Barclaycard, there was very strong income growth of 42% to just over £2 billion,

which was driven by growth in customer balances of 19% and lower funding costs.

About 40% of revenues came from our international businesses.

This broad based income growth was offset by higher impairment charges of £915 million,

resulting in profits of £391 million, an increase of 1%,

though growth was much higher if you take into account the Goldfish transaction in the first half last year.

The majority of impairment was in UK cards and Barclaycard US.

In UK cards, balances grew by 1%

and in Barclaycard US, balances increased by 57% in constant currency terms.

We've maintained conservative approval criteria and our approval rates were 44% in the UK and 39% in the US.

Cost growth was considerably lower than income growth at 10% and the cost income ratio improved from 45 to 35%.

Total new lending in the UK, including Barclays Capital, was £17 billion during the first half as we continued to support our customers.

Results for GRCB Western Europe include Russia for the first time.

Strong income growth in Western Europe of 38% to £886 million

was driven largely by higher net interest income across Spain, Italy, Portugal and France.

Customer deposits grew 6% from the year end, and are 45% higher than the first half last year

as a result of expanding the distribution network.

Impairment charges increased to £301 million.

Two thirds of this was in Spain, in our property and construction portfolios and cards business.

Spain continued to operate profitably, supported by good income growth.

Cost growth in Western Europe was lower than income growth

resulting in an improvement of the cost income ratio from 66 to 63%.

Profits in Western Europe of £31 million were impacted by a £35 million loss in Russia resulting largely from increased rouble funding costs.

On a like for like basis, profits were broadly stable.

We expect the sale of a 50% stake in BVP, our life and pensions business, to CNP Assurances to complete in the third quarter.

This partnership will significantly enhance the insurance products we offer to our retail customers in Spain, Portugal and Italy

and we expect a gain on sale of about £100 million.

In Emerging Markets income grew 29% to £529 million.

The growth was well balanced between retail and commercial

and was broadly based across geographies,

with an especially strong performance in Africa.

Impairment of £213 million was more than double the same period in the prior year.

Almost all of this was in the retail segment in unsecured lending and cards, particularly in India.

Cost growth of 43% reflected the investment in people, infrastructure and the distribution network in the prior year.

Taken together, this resulted in a loss in Emerging Markets of £86 million.

We continue to believe these markets will generate good returns over the medium term

and our investment leaves us well placed to benefit from economic recovery in these markets.

Our pace of ongoing investment will be determined by that recovery.

At GRCB Absa, which excludes Absa Capital and Absa Cards, profit in sterling was down 17% to £248 million.

Income grew 15% to £1.2 billion

though most of this was accounted for by a strengthening of the rand against sterling.

The cost income ratio improved from 60 to 55%.

Impairment more than doubled from 125 to £295 million driven mainly by higher delinquencies in retail banking,

especially in mortgages.

Rand/sterling exchange rates were responsible for £37 million of the increased charge.

We remain cautious about the economic outlook in South Africa and have adopted a defensive approach to credit there.

Moving on to Investment Banking and Investment Management where there were profits of £1.4 billion

with income growth of 52%

reflecting an excellent first half in Barclays Capital

following the integration of Lehman Brothers North American business.

Profits at Barclays Capital doubled to just over a billion pounds

driven by very strong income growth which was broadly based both by product and by geography.

There was a strong performance in the UK, Europe and Asia,

and a transformation in the scale of the US business which delivered around 40% of total Barcap revenues.

We saw especially good growth in interest rates, credit products, equities and prime services,

as a result of strong client demand in these areas.

Profit would have been £2 billion, excluding losses on own credit of £900 million.

Top line income grew to £10.5 billion, which is more than for the whole of 2008.

Taking into account:

credit market losses

losses on own credit

and impairment

net income was £4.2 billion.

Losses on own credit of almost £900 million

compared to an £850 million gain taken in the first half last year.

This reflects the tightening of CDS spreads and their volatility

along with their divergence from the underlying cash credit spreads used to price the notes we issue.

Our credit market exposures have reduced by 30% since the year end through

sales and pay downs of £6.3 billion at or close to our marks, write-downs of £4.7 billion, as well as foreign exchange and other movements of £1.6 billion.

We increased write-downs on our commercial real estate books by £1.5 billion

resulting in average marks on these loans of

69% in the UK,

77% in the US,

and 84% in Germany.

We've also increased provisions against monoline exposure by £1.4 billion to a total of £3.1 billion, and as a result our coverage ratios have increased from 17 to 27%.

Costs at Barclays Capital grew 89% to £3.2 billion with the inclusion of the Lehman business as well as targeted investment to extend our equities and M&A franchise funded by income from those 2 businesses.

Despite this investment, headcount's reduced by roughly a thousand to roughly 22,000 since the year end.

The cost to net income ratio improved two percentage points to 75%.

We announced on June 16th that we'd accepted an offer from BlackRock to purchase the Barclays Global Investors business for $13.5 billion

based on the BlackRock stock price at the time of the announcement.

The offer comprises 37.8 million new BlackRock shares

and $6.6 billion in cash.

Barclays will be represented on the board

and will retain an economic interest of just under 20% of the new BlackRock Global Investors

which will be the world's largest asset manager.

Our shareholders vote on this transaction on Thursday

and we expect it to close around the end of the year,

subject to shareholder and regulatory approval.

Looking now at the performance of BGI, profits of £276 million were up 4% year on year.

Income and expenses were broadly flat and costs included the break fee paid to CVC of £106 million.

Assets under management in dollars were up 12 % at $1.7 trillion

and there were very strong net new asset inflows, including ishares, of $108 billion.

At Barclays Wealth, profits declined to £75 million reflecting

the sale of the closed life business in 2008

as well as the cost of integrating the private investment management business acquired from Lehman

which has now been renamed Barclays Wealth Americas.

On a like for like basis, income was broadly in line with 2008 at £627 million.

Total client assets of £134 billion were in line with the year end adjusted for the impact of exchange rates.

In Head Office, we reported profits of £330 million as a result of net gains of £1.1 billion from debt exchanges completed in the first half.

Net interest income declined largely as a result of additional costs of funding arising from dislocation in the money markets.

We expect these costs to reduce significantly in the second half.

Moving on to look at margins, with the exception of Emerging Markets, the asset margin has continued to improve across all our banking books.

This improvement has been offset by liability margin compression.

> About two thirds of this was mitigated by product hedges which contributed £671 million.
>
> In addition, hedging the impact of earnings volatility on group equity contributed £527 million.
>
> Hedging is expected to mitigate about half the impact of margin compression in the second half,
>
> assuming interest rates stay at current levels.

Across GRCB and Barclays Wealth, the aggregate net interest margin has increased from 2.02% to 2.14% year on year.

Turning to the group balance sheet, total assets have reduced by £508 billion since the year end.

This slide sets out a breakdown:

> The reduction in loans and advances was largely in Barclays Capital
>
> especially in relation to financial institutions.

We believe that adjusted gross leverage gives a more useful view of the balance sheet.

> and if we look at balance sheet leverage, excluding the derivatives gross up, assets under management, settlement balances and goodwill,

adjusted gross leverage improved from 28 times Tier 1 capital at the end of 2008

to 22 times at the end of the first half.

It would have been 20 times on a pro forma basis, taking into account the sale of BGI.

You'll recall that the derivatives gross up represents receivables and payables with the same counterparties.

These are subject to netting agreements and on a US GAAP basis the balance sheet would be a further £500 billion smaller.

The derivatives gross up has declined by over £400 billion since the year end partly due to the elimination of 115,000 offsetting contracts during the first half at no cost and with no capital impact.

We expect to continue making further reductions throughout the year.

Turning now to liquidity, as you know retail and commercial banking and Barclays Wealth have no reliance on wholesale funding.

We've improved our liquidity profile this year by

strengthening the balance of secured to unsecured lending,

extending the maturity profile of our unsecured funding in wholesale,

and increasing the size of our liquidity buffer.

We issued benchmark bonds, without government guarantees, totalling the equivalent of £5 billion in a number of currencies including sterling, Euros and US dollars.

And across the group, we've increased the balance of cash and liquid assets that we hold to meet any unexpected outflows from £36 billion at end of December to £88 billion at the end of June.

Barclays Capital has born all its additional funding costs caused by market dislocation.

It manages its liquidity position to be self funding from wholesale sources

and to ensure that potential cash outflows in a stressed environment are covered.

Barcap has also increased the average term of its outstanding unsecured liabilities from 11 to 15 months during the first half.

We’ve also significantly strengthened our capital ratios since the year end

Our Core Tier 1 ratio, calculated in line with new FSA standard definitions, was 7.1% at the end of June.

On a pro forma basis it would have been 8.8% taking into account the sale of BGI.

Our Tier 1 ratio was 10.5% and our ratio of total capital to risk weighted assets was 14.5%.

So in summary we delivered profits of £3 billion in the first half and at the same time we:

strengthened our capital ratios,

reduced our balance sheet and leverage,

and improved our liquidity.

We’ve achieved this as a result of very strong income generation which was more than twice the increase in credit market losses and impairment.

The strength of this performance is thanks to the diversification of our business model.

Thank you very much – I’d now like to hand over to Robert.