Interim Results 2009

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Good Afternoon

When I presented to you at the time of our full year results in February I said that our objectives for 2009 would be:
- staying close to customers and clients;
- managing our risk;
- and maintaining strategic momentum.

Most of my remarks today will be aimed at those areas.

So I'll talk about income, because that reflects our relationships with customers.

I'll talk about capital, because that reflects risk.

And I'll talk about the shape of the Barclays Group, because that's the first expression of strategy.

Before going there, I want to review our performance this year against the scorecard that I gave you in February.

I said then that we were interested:
in the quantity of RWAs, and the returns they generate;
in the size of our balance sheet, and the scale of leverage;
in growing customer liabilities in line with growth in customer assets;
in the relationship between income and cost;
and, lastly, in maintaining capital ratios well in excess of the FSA minimum levels.

So I'm going to look first at how we've done on these. I'll talk about our thoughts on return on equity versus cost of equity later in my remarks.

On RWAs, our regulatory balance sheet has fallen by 6% since year end.

Annualised returns on assets are broadly flat. We have reduced the gross balance sheet materially.

As a result, adjusted leverage, as you've been hearing from Chris, is down quite significantly since the end of 2008, and down very significantly since the end of 2007.

We have improved the loan-to-deposit ratio by 9 percentage points to 129%.

If I look at the relationship between income and cost, our cost income ratio has improved 3 percentage points and the positive jaws between income growth and cost growth was 7 percentage points.

Our objective of managing capital ratios well ahead of the regulatory minima is being achieved.

We started 2009 with a Core Tier One ratio of 5.6%, and that was 7.1% at the end of June, or 8.8% if adjusted for the sale of BGI.

Turning then to my key themes of clients, risk and strategy at the heart of Barclays is a broadly based set of businesses.
The strength and breadth of our relationships with customers and clients is clearly observable in our income performance during the first half.

Income grew 14% in GRCB and 52% in IBIM.
Income diversification has offset the write-down and impairment impacts of the banking crisis, and of the economic crisis.
Protecting our ability to serve customers and clients in chosen markets around the world and with it the preservation and strengthening of a broadly based income platform lay at the heart of our decision about recapitalisation in October 2008.

Our income performance during the crisis gives me confidence.
The first half income story at Barclays Capital is shown on this next slide.

As you can see, there is a lot of growth, with material amounts of income across the waterfront.

The new areas of notable growth and contribution, amplified of course by Lehman, are Equities, Investment Banking, Commodities, Currencies and Prime Services.
The income growth in GRCB, both in 2009, and since the crisis began in the summer of 2007, has been dominated by its international businesses……..

…….where income growth was 33% in the first half.

GRCB's international businesses now account for about 40% of its income.

It's the strength of that income performance over the last three years that has enabled us to invest heavily in the build-out of distribution channels.

We now have some 3,000 sales outlets and branches outside the UK.

There is a cost of course: cost from the investment in branches and people; and cost from the impairment growth attributable to maturing asset books. We must strengthen the profit performance, and returns, of our Western European and Emerging Markets businesses although we should recognise that the path that we've taken here over the last three years has put the development costs into the P&L account rather than into the balance sheet via acquisition.
As usual, we've operated on a pay-as-you-go basis.

The new Western European and Emerging Markets businesses have been profitable over the period 2006 through 2009 not withstanding the rate of investment, and notwithstanding also the impact of harsher economic conditions on their profit performance.

With the downturn in the global economy, we have moderated quite significantly this year our rate of investment in people, distribution channels, and assets in these businesses.
But we are clear that the trends which led us to make these investments will continue.

They will grow faster than our businesses in developed markets due to the increasing use of financial services by consumers and businesses in them and to the steady homogenisation of customer demand there (which will benefit well known banking brands).

The further development of GRCB's international business is an important part of our diversification strategy.

So we've incurred these investment costs with our eyes open understanding the surge in profits that will follow from the normalisation of impairment in due course given the scale of our international businesses
which now serve about 30m customers.

Turning now to risk.
We see risk and capital as two sides of the same coin.
It's been very important to strengthen our capital ratios during this half, and I've already explained how they have grown.
Of course, profit generation is intrinsic to a bank's ability to protect and grow its capital ratios.
Barclays has continued to generate profits in every reporting period since this crisis began – since that time two years ago we have generated total profits of £12bn.
As we look forward, we have an eye on developments in the area of regulation.
Even though none of us yet has the detail, we know that one consequence of this crisis is a requirement for more capital, and less leverage.
But remember that Barclays began the process of increasing capital, and reducing leverage, well over a year ago.
Our Core Tier One ratio has increased by over 4 percentage points, on a pro forma basis, since the end of 2007 and as I've explained, our leverage has fallen significantly since then.

These actions will help us manage future regulatory impacts.
In the area of funding, we have been steadily building liquidity in anticipation of the introduction of the FSA's new rules.
And in the context of future levels of market risk capital, we make the assumption that the regulatory decisions will, as they should, recognise a distinction between capital required to support proprietary trading (which is not our focus)
and capital required to support the risk management and funding needs of our government and corporate clients (which very much is).
We've been developing the mix of earnings in Barclays Capital to take account of the changing regulatory environment.

The regulatory balance sheet supporting the business of Barclays Capital was lower end June versus end December 2008 not withstanding the very large growth in income and profit.

That's because of the prominence of low-capital-intensive, client-driven, flow business, which has been boosted both by the Lehman acquisition and by the market share gains created by the upheaval in the global investment banking sector.

First half, top-line, income in Barclays Capital significantly exceeded 2008 full year income.

And notwithstanding the unusually buoyant conditions that we saw in the first quarter of this year, top-line income in the second quarter exceeded that of the first quarter.
Let me make one further point here before I move on to talk about strategy.

Some commentators have a particular view about the nature of investment banking.

I'm showing on this next slide the names of some of the clients on whose behalf we have been active recently – this is all a matter of public record.

This work by Barclays Capital supports real economy activity helping clients with their financing and risk management needs, and driving as a result: investment, jobs and economic growth.
I'm going to talk now about my third theme, which is maintaining strategic momentum.

It's an important subject, not least because we are very conscious of the role that banks must play in economic stabilisation and regeneration.

Our strategy, as you know, is to increase the growth potential of Barclays by diversifying our businesses.

Notwithstanding the uncertainty of the economic outlook and the attendant uncertainty about the development of regulation, we have a clear view about the future direction of the Barclays Group.

In GRCB, our goal is that the profit contribution of our international activities will, in time, equal that of our UK businesses.

We are seeking to ensure that profits in our African businesses, including Absa, will continue to grow through time.

We have ample opportunity to develop our Western European retail and commercial banking businesses.

A good example of that would be via our new joint venture in life and pensions with CNP, who chose Barclays as one of its preferred distribution partners across Spain, Portugal and Italy.
And in due course, we will be seeking to grow the Asian businesses of GRCB, which are still underweight.

That objective underpins the investments that we have been making in India, Pakistan and Indonesia over the last two years.

These are high growth economies.

In IBIM, we have been developing our businesses in the areas where we have been geographically under-represented over the years – particularl Asia and the United States.

Our wish to increase exposure in the United States (which accounts for some 40% of the income in the global financial services industry today) is benefiting significantly from the Lehmans acquisition.

We also intend to create global platforms out of the principally national platforms in equities and M&A that we acquired in Lehman.

In the first half of 2009, over 50% of the Group's income was generated outside the United Kingdom, and it is a strategic priority for us to grow that percentage in the future.

If I then look at the shape of the Group by business line, the Lehman acquisition, the sale of Barclays Global Investors, and the current impact on GRCB's profits made by the compression of liability margins and rising impairment, will skew the relative contribution of investment banking for a while.

But as we've said before, our intention is that, over time, and in circumstances where Barclays Capital continues to grow, about two-thirds of the Group's profits will come from GRCB and Barclays Wealth.

We believe that the investment management industry will continue to grow.
Through our equity holding in BlackRock Global Investors, we will maintain exposure to that growth, but in an independent vehicle (which we see as the advantaged model of the future) and structured in a way that avoids related-party issues.
I want to finish by talking about dividends and goals, and then a word about the outlook.

At this year's AGM, the Chairman announced our intention to resume dividend payments before the end of 2009.

So going forward we intend to make four payments of cash dividends each year.

For the second half 2009, we intend to make an interim payment in December, and a final dividend payment in March next year.
We want to maintain strong capital ratios.

We therefore expect that the proportion of after tax profit distributed through dividends will be significantly lower, for the foreseeable future, than the 50% payout level which we have operated in recent years.
We promised that we would update you today on the subject of goals.

We have an output goal relating to TSR, and an input goal relating to economic profit.

Our output goal remains unchanged.

It is to produce top-quartile total shareholder return over time.

On a TSR basis, Barclays was the best performing share in the first six months of this year, against our domestic and international peer group which is important, given what a tough time our shareholders have had over the last two years.

Our current economic profit goal is unlikely to be met, principally because of the increase in required regulatory capital.

We believe that, in the future, total shareholder return will be sensitive to items which are additional to economic profit.

These include the items on the scorecard I referred to earlier.

Within that list, our principal input goal going forward will be that our return on equity will exceed our cost of equity.
In the short term, that requires ensuring that returns are at least equal to the cost of equity (currently 12.5%).

So this is the way in which we will judge our performance over the period between now and the end of 2010.

In the medium term, a return at the rate only of cost of equity is inadequate, and we will seek to ensure that the former exceeds the latter through time.

A few words on the outlook for regulation.

Given the experiences of the world over the last two years, the managing of systemic risk looms large in the minds of governments and regulators today.

I willingly acknowledge that there were excesses in risk, leverage, and reward in the banking sector.

This industry got many things wrong, and there is much to be sorry about.

So there must be change, and there will be change.

That change should, however, not provoke the throttling of important aspects of the market economy.

That's because a properly governed market economy encourages thrift, innovation, creativity and enterprise.

The world needs those things as it recovers.

Two final points.

First, domestic lending.

New lending by Barclays to UK households and businesses in the first half totalled some £17bn, and all within acceptable risk parameters.

That £17bn is to be compared with the £11bn for full year 2009 that we announced in April.

If I look, for example, at lending activity by Barclays Commercial Bank to UK businesses our credit approval rates this year are averaging over 90%, again within the right risk parameters.
We are committed to lending to credit-worthy borrowers.
That is our job.

This is a good time for banks to lend and Barclays is open for business.

And secondly, current trading, and our ambitions for the rest of 2009.

The trends that lie behind our operating performance in the first half of this year were again observable in July.

And whilst we are realistic about how difficult the environment is, and will remain we are committed to delivering, by virtue of our continued emphasis on serving the needs of our customers and clients, another year of solid profitability.
Despite the tumultuous events of this crisis which, believe me, have been humbling for all of us here we have been able to remain independent, and profitable.

We have strengthened our balance sheet and managed our risks tightly, and we have stayed close to customers and clients.

We are a British company, but with an increasingly international footprint and earnings base.

I think our strategy has helped us weather the crisis.

We want our shareholders, our customers and our employees to continue to benefit from it.