2010 Interim Results

5 August 2010

Chris Lucas

Good morning and thank you Marcus

We're reporting strong profit growth year on year, resulting from a substantial improvement in impairment, combined with a resilient income growth despite relatively subdued market conditions.

We've also generated higher returns, both on an increased equity base and on risk weighted assets.

We've managed capital tightly, leverage was stable, and we further strengthened our liquidity position while continuing to support customers as we extended £18 billion of gross new lending in the UK.

In general my comments compare the first half of 2010 with that of 2009.

I'll also refer to the second half last year and first quarter this year where that gives you a better understanding of the trend.

I'll start with the headlines at Group level.

Profit before tax was £3.9 billion, up 44% on the first half last year.

Taking into account the impact of:
own credit,
gains on acquisitions and disposals,
and gains on debt buy backs,
adjusted profit before tax was £3 billion, an increase of 22%.

Income was 8% higher at £16.6 billion

Adjusting for own credit and debt buybacks to give a sense of the underlying performance, income increased 5% year on year and 7% relative to the second half.

Impairment of £3.1 billion improved by 32% year on year, or 12% compared to the second half.

We are maintaining our guidance for the full year of a 15 to 20% reduction in impairment relative to 2009.

Looking at the movements, there was an increase of £433 million in Spain in Barclays Corporate, shown here in yellow;
a very significant reduction at Barclays Capital, which is in blue;
as well as a slower overall improvement in the rest of the business.

Improved impairment resulted in strong growth in net income of 25% to £13.5 billion

Costs grew to £9.7 billion reflecting the continued build out of our business, and the cost income ratio was 59%.

I'll talk more about this later.

Return on equity was 9.8%, on tangible equity it was 12%, and return on risk weighted assets was 1.5%.

Earnings per share grew 27% to 20.9 pence and we're announcing a second interim dividend of 1 pence for the quarter bringing the dividend for the first half to 2 pence.

Turning now to Global Retail Banking…

While income of £5.1 billion was broadly stable, profits increased 7% to £901 million.

Looking at the individual businesses…

Profits at UK Retail Banking grew 61% to £504 million.
This includes a net gain of 85 million on the acquisition of Standard Life Bank and a £72 million net pension benefit.

Excluding these, profits grew by 19%.

Income increased 1% as we continued to be impacted by margin compression.

Impairment charges reduced by 14% year on year, and by 12% on the second half, to £447 million driven by continued improvements in unsecured lending and the quality of new business.

Net income, after impairment, grew 6% to £1.7 billion, and costs were flat at £1.3 billion.

Loans to customers were up 11% to just under £114 billion driven by growth in the UK mortgage book including Standard Life Bank.

Gross new mortgage lending amounted to £8.5 billion, resulting in net new lending of £3.3 billion.

The average loan to value on the existing mortgage book was 42% on a current valuation basis.

On new lending the average loan to value was 51%, so we're continuing to grow market share with a conservative risk profile. Customer deposits grew 10% to £106 billion

Two thirds of this increase was Standard Life Bank.

Our loan to deposit ratio in UK Retail Banking at the end of June was 107%.

At Barclaycard, income was down 3% to £1.96 billion.

Most of this reduction was the impact of the US Credit Card Act which had a significant effect on all US card issuers.

We've made adjustments to our business in order to mitigate the impact of this.

Impairment charges decreased by 3% year on year and were broadly flat on the second half.

Delinquency trends in our largest books, UK and US consumer cards, have improved compared with the second half.

Expenses grew 6% reflecting an increase in staff related costs and investment in marketing, including the launch of Barclaycard Freedom.

Taken together, this resulted in profits decreasing by 15% to £317 million.

In challenging market conditions, Western Europe Retail Banking delivered profits of £10 million.

This included a gain of £29 million from the acquisition of an Italian cards business from Citigroup.

Income decreased 12% reflecting a higher cost of deposits.

Impairment improved 10% year on year and 30% since the second half.

Just to remind you, our retail mortgage book in Spain has an average loan to value of 56% on current valuations.

Costs increased 12% to £495 million.

This was largely due to the acquisition of two new credit card businesses in Italy and Portugal, as well as the addition of 60 new distribution points as we continue to build scale in these markets.

Our loan to deposit ratio has improved as deposits grew 35% year on year, compared to asset growth of 11%.

We're working to improve profitability and achieve a more balanced funding profile in Western Europe.

At Barclays Africa, profits increased 8% to £70 million driven by strong income growth of 10% and a 24% improvement in impairment.

Expenses grew 12% to £285 million as a result of increased investment in infrastructure and higher staff costs.

Moving on now to Corporate and Investment Banking and Wealth Management.

I'll start with Barclays Capital where profit before tax, excluding the impact of own credit, grew 31% to £2.5 billion.

Top-line income before write downs and own credit was £7.1 billion which is 32% down year on year, reflecting the extraordinary market conditions during the first half of last year.

On a quarterly basis, top-line income was only 15% lower in the second quarter this year than the first.

Total income increased 30% to £7.9 billion.

Taking into account:
a reduction in credit market losses of £3.4 billion,
gains on own credit of £851 million,
and a £1.6 billion decrease in credit market and other impairment,
net income grew 80% to £7.6 billion.

This slide shows income trends on a quarterly basis.

You can see a healthy progression in total and net income across the last four quarters, giving an indication of the real operating leverage in the business as credit market write-downs and impairment levels reduce.

Looking at top-line income by business line:

The reduction in Fixed Income, Currency and Commodities in the second quarter was a good performance given lower levels of activity across the industry.

Investment Banking was also impacted by lower levels of advisory activity.

Equities and Prime Services saw top-line income growth in the second quarter even though the environment was subdued, reflecting the build out of our cash equities business.

We're pleased with this overall performance and the trends relative to the market which reflect the strength of our client franchise.

This has enabled us to take leading positions in many client driven league tables.

This slide shows you some of our current league table positions in debt and equity markets as well as some industry and client awards we've received in recent months.

Cost growth at Barclays Capital was significantly less than growth in net income. It included investment in infrastructure, the continued build out of Equities and Investment Banking and increased compensation costs, reflecting:
16% growth in headcount,
increased profitability, and
higher deferrals from prior years, in line with regulatory requirements.

Headcount increased to 25,500 during the first half, though we expect this to decline slightly in the second half.

We’ve largely completed our build out in Equities and Investment Banking in Europe and as you know, our philosophy on investment across the group is pay as you go so we’ll calibrate the pace at which we invest in these businesses in Asia in line with economic conditions

On a headline basis the cost to net income ratio reduced from 73 to 55%

Excluding own credit, it was 62%, well within our target range of 60 to 65%.

The compensation to income ratio was 37% and excluding own credit, it was 42%.

As you know, decisions on compensation are made early next year based on full year performance

Barclays Corporate reported a loss before tax of £377 million.

Profit growth of 3% to £379 million in the UK and Ireland was more than offset by losses which were driven mainly by higher impairment in Continental Europe and restructuring charges in New Markets.

Income decreased 14% to £1.4 billion due to:
the non recurrence of an £83 million gain on debt buy backs in the first half last year, increased funding costs,
and reduced risk appetite outside the UK.

Operating costs grew 8% or £61 million, which was more than accounted for by restructuring costs of £93 million in New Markets.

Impairment charges increased 32% to £949 million.
There was an increase in Spain of £433 million largely driven by increased severity assumptions for the property and construction sector.

Robert will talk more about this later.

This was partly offset by a significantly improved performance in the UK and Ireland and New Markets where the impairment charge reduced by £212 million as default rates and insolvencies decreased.

Deposits grew 18% in the first half to more than £68 billion, with most of the growth in the UK.

Lending fell reflecting general market trends.

This resulted in a loan to deposit ratio of 119% which is a very significant improvement from 150% a year ago.

We are focusing these businesses on the most attractive customer segments, product areas and locations, in order to deliver a return to profitability.

At Barclays Wealth, profit before tax increased 27% to £95 million.

Income grew 22% and costs 20%.

Cost growth included £33 million as we started our strategic investment programme.

We expect to invest a further £80 million in the second half.

Moving to Investment Management, as you know we hold a 19.9% stake in BlackRock which contributed profits of £31 million, mainly through dividends.

Absa Group has announced an 18% increase in profits to 5.6 billion Rand.

Absa Capital, Absa Cards and Absa Wealth are reported within their respective segments in the Barclays Group.

At Absa, profits increased 23% in sterling, helped in part by strengthening of the Rand during the first half.

Income and costs increased 14% and 19% respectively, and impairment charges improved by 4% to £282 million.

I said earlier that I'd talk in more detail about operating expenses:

This slide shows a breakdown of cost growth across the Group.

About two thirds of investment cost growth relates to the build out in Barclays Capital and Barclays Wealth.

The balance includes restructuring costs in Barclays Corporate as well as acquisitions in GRB.

Performance cost growth reflects levels of profitability, and a £270 million increase in deferrals of prior year compensation.

It also includes long term incentive plans which are subject to performance hurdles.

The growth in regulatory costs includes a one off provision of just under £200 million in relation to a review of compliance with US economic sanctions as well as £51 million of bank payroll tax.

Looking at the group cost income ratio, this increased from 58 to 59% during the first half and from 53% year on year.

Half of this was accounted for by Head Office which reported a loss before tax of £421 million, compared to a profit of £330 million for the first half last year.

This includes the one off provision that I just mentioned as well as non repetition of net gains on debt buy backs of £1.1 billion in the first half last year.

Moving on to look at margins, the overall net interest margin declined from 214 to 198 basis points year on year

As you can see on the slide, around 19 basis points of this decline was due to liability margin compression.

A further 9 basis points resulted from a reduction in treasury income and changes in the asset liability mix.

These reductions were partly offset by an average increase in customer asset margins of 12 basis points.

The net interest margin for the second half last year was 208 basis points.

When you look at the trend in asset and liability margins by business, you should be aware that these have been impacted by changes to our new Fund Transfer Pricing mechanism introduced in the fourth quarter last year, to incentivise the gathering of deposits with long term behavioural characteristics.

These changes have had a negative impact of 40 basis points on published asset margins and a positive impact of 60 basis points on published liability margins.

Reported aggregate Group net interest income is unaffected by these changes.

We continue to benefit from our hedge which helps to protect margins and we've extended its duration to cover the possibility that interest rates remain low for some time.

The hedge, which includes both product and equity hedges, contributed £1.4 billion to Group income for the first half, which is up from £1.2 billion in the first half last year.

Moving on to capital, at the end of June our Core Tier One ratio was 10% and our Tier 1 ratio was 13.2%.

This slide shows the development of Core Tier 1 capital during the first half with positive movements resulting from our profitability and the exercise of warrants offset by negative movements including a fall in the BlackRock shareprice.

Turning to the balance sheet,
adjusted gross leverage was stable at 20 times.

We've been operating in a range of 20 to 24 times over the last 6 months with some ebb and flow depending on overall activity levels.

We intend to run leverage within this range going forward.

We've achieved this at the same time as increasing the size of our liquidity pool to £160 billion,which is more than 15% of our adjusted tangible assets.

We believe this is sufficient, pending the outcome of new regulation.

Before I close, I'd like to make some comments about our liquidity and funding.

Firstly, our model of self-funding in retail and commercial banking and wealth management has stood us in good stead.

We've increased average deposit balances by 16% year on year, compared to 5% growth in average assets, and our group loan to deposit ratio improved from 130 to 124%.

Secondly, we've continued to benefit from strong name recognition in wholesale markets, which is evident in our relative cost of funding.

Thirdly, we've raised £15 billion of wholesale funding during the first half, which is more than enough to address financing maturing in the whole of 2010.

Our maturities for the next two years are well within our recent funding capability.

So to close, while the economic and regulatory outlook remains uncertain we continue to manage the group with a focus on our customers.

This has enabled us to generate higher returns, despite increased shareholder funds, while maintaining strong levels of capital and liquidity which positions us very well in the current environment.

Thank you very much – I'll hand over to Robert now to discuss risk management in more detail.