

Interim Results 2009

03 August 2009

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Thanks Chris. Good afternoon

I'm going to comment on the changing economic conditions we have seen, and how they affect our business through credit impairment

I'll look at our main portfolios, and at market risk, and then describe some trends and our outlook

During the first half of this year there has been some further weakening in GDP, unemployment, and property values across many economies
UK GDP was expected to fall by about 2% this year, and it's now generally expected to be down about four percent

Unemployment has moved up faster than expected, and will continue to rise through this year

The trends in the US are similar, and house prices in both economies have declined, but not as much in the UK as generally expected

Those economic trends affect our portfolios, and they have pushed our impairment higher in our expected range

Let me review our impairment for the first half

In February, I shared with you our planning range for impairment this year, and I explained that our range was based on three conditions:

- that the economy would perform at the consensus level,
- a steady FX rate; and
- a constant balance sheet

On that basis, we expected a loan loss rate of between one-thirty and one hundred and fifty basis points for the year on our loan book, which doesn't include the Available For Sale assets

That range implied an impairment charge of between 3.4 and 3.9 billion pounds for the first half

Our actual impairment charge for the loan book was 3.9 billion

So, to compare this to our planning range .
with a steady FX rate from last year the impairment charge would be 3.7 billion

And when we use a constant balance sheet for loans and advances, the comparable loan loss rate for the first half was 144 basis points

This is at the higher end of our range, as we indicated to you in May, even though economic conditions were weaker than consensus

The reported loan loss rate of 165 basis points occurs mostly because our loan balances have declined by 43 billion pounds

This reduction in loans and advances has occurred across both GRCB and IBIM, with the biggest reduction in Barclays Capital

Chris has given you the impairment charge by business, and this slide shows the composition of our impairment charge over time

In the first half of this year, Retail credit in the UK has remained at about a quarter of the overall charge
International retail impairment has increased
as other economies have slowed, and UK and international commercial have both increased

Charges against Credit Market Exposures are a smaller proportion.
and impairment against loans and other credit in Barcap has increased.

These trends were all consistent with our expectations, and reflect the broad stress in credit markets.

I'll now review our major credit portfolios, starting with our mortgage businesses.
Looking at Loan to Value, a clear majority of our UK mortgages continue to have a current value LTV below 70 percent, although the drop in house prices has pushed the distribution slightly higher.

Only 12% of our mortgages have an LTV above 90%, and our exposure to negative equity remains at a very low level compared to the industry.

Our mortgage book in Spain is also very low LTV and makes up 89 percent of our total retail exposure in that country.

In South Africa, the market has used higher LTV lending although Absa has stayed in the lower range for the industry

In UK mortgages, 3 month arrears have edged higher but remain much lower than the industry.

And looking at the number of repossessions, our experience is also well below the rate of the industry. We have 783,000 mortgages in the UK and only 225 are currently in repossession.

Although overall credit card spending has been decreasing in the UK, our credit balances have been stable.

In February I said we expected the environment to be tougher for retail credit, and this has been the case.

Our delinquency rate has increased as have charge off rates although both of these remain at the lower end of the range for the industry.

These trends have been driven by increasing unemployment, bankruptcies and voluntary arrangements, as we have seen across all our unsecured lending in the UK.

The trend is similar for loans, where balances are stable

With rising unemployment we are seeing higher delinquencies, and the charge off rate is also increasing.

However, we have begun to see some improvement in early delinquency for recently originated loans

The Commercial Bank can be examined in three categories:

- Our core commercial areas of larger business and medium business where the loan loss rate is below 150 basis points
 - Asset and Sales Finance and Property-based lending are showing a Loan Loss Rate of one-fifty to 300 basis points, where you would expect to see that kind of impairment, at this point in the cycle
 - And our Sponsor leverage book is where we expect to see the highest impairment rate
- The overall reported loan loss rate for these businesses moved up to 143 basis points in the first half from 77 basis points in the second half of last year

Looking at our loan balances, we have built most of them in the core parts of Medium and Larger Businesses, which are lower risk

There are much smaller balances in asset and sales finance and very small balances in our property book because we have kept tight limits there

And we have steadily reduced our limits on sponsor leveraged over the last three years, so this has been a shrinking book for us.

Potential Credit Risk Loans are a good indicator because they reference all of the assets that are in credit difficulty they basically include the non performing loans and our level 3 watch list

For these areas, PCRLs remain fairly moderate, which reflects the good asset quality of the book

For the UK Commercial Bank in the first half the five largest impairment charges total 81 million pounds, and the next five total 49 million pounds

Moving now to our US card portfolio, our credit balances have come down as a result of the weaker dollar and because we have significantly reduced open market recruiting

Our delinquencies and charge offs have moved higher although by tightening our policy rules last year, the number of accounts entering delinquency has started to stabilise

Both of these rates are in line with our planning expectations.

They will trend higher as our portfolio matures, but we expect to remain at the lower end of industry levels

For the GRCB International portfolios of Absa, Western Europe and Emerging Markets, I will deal with retail and commercial lending together

In South Africa, delinquency rates and impairment have risen, particularly in the home loan and vehicle finance areas

Last year Absa was the first bank in that market to significantly tighten lending criteria, and as a result, there have been signs of improvement in the performance of new retail lending

In Spain the unemployment rate has almost doubled from last year and is approaching 20 percent

Of course, this has flowed through to impairment, seen mostly in the credit card and personal loan books

We have a mortgage book of about 15 billion pounds in Spain and arrears are even lower than our very good performance in the UK

On the corporate side in Spain we have a couple of large exposures, however in general we avoided the large syndicated property deals in that region

In Emerging Markets our retail book is diversified across 14 countries

The increase in impairment in Emerging Markets has been mostly driven by Retail in India and the UAE – where book growth, economic slow down and portfolio maturation have been important factors

In early 2008 we saw deterioration in those portfolios and immediately tightened credit criteria.

Over the last 12 months we have cut new business volumes by 80% in those 2 areas and total retail balances in Emerging Markets were down 15% in the first half

Overall, across these three regions we expect a lower rate of impairment growth in the second half

In Barcap, the reduction in loans and advances has been mostly in Cash Collateral advanced to counterparties, and Portfolio Exposures, which together declined by 48 billion pounds

The impairment charge in Barcap has increased in the first half with roughly the same share across the three components

For loans and other, about 100 million was in the private equity book

For the Available for Sale assets, a big part of the impairment charge arose from one name.

We also note that watchlist balances have been broadly steady from the end of last year, although there has been some weakening in those names

In the first half for Barcap the five largest corporate impairment charges total 398 million pounds in the first half, and the next five total 93 million pounds.

For the Group, our Credit Risk Loans

include all our retail and commercial non performing loans

as well as assets like the ABS CDOs in BarCap, where we have taken impairment even though no events of default have occurred

In the first half of 09 the CRL balances increased in most sectors

However the balances for ABS CDOs have declined due to dollar weakening and they are all reported as CRLs so the underlying balances will not grow further

The charges we have taken have moved our Impairment stock 34% higher to just over £8.8 billion pounds and as a result, our overall coverage ratio has moved up to 44.3%

Our Commercial Real Estate portfolio comprises property loans, held in the trading book at fair value, together with a small book of CMBS securities.

The portfolio has been under pressure from falling commercial property prices during a period of low market activity, and from the impact of the recession on tenants

Our exposure has decreased 2.9 billion pounds during the first half, which includes write downs of just over 1.4 billion pounds, mostly on the US assets, as well as disposals and the effects of currency moves

The valuations on these assets properly reflect market conditions, and we take comfort from the LTVs and the geographic spread of the portfolio, although additional write downs are likely in the second half, as difficult market conditions persist

For the Monolines, I am showing our net exposure in US dollars, because the assets are mostly in that currency, and that exposure was broadly unchanged in the first half of the year, partly through smaller moves in asset prices

In the first half we increased credit provisions further, reflecting weaker monoline credit

The important points here are that the underlying assets were originally AAA rated and although they have been downgraded they're all still performing

Our portfolio is focused on better quality assets, particularly the CLOs which make up about 2/3 of our book

These CLOs continue to perform and because they have strong structural support, 94 percent of them remain AAA or AA

US RMBS assets are 9 percent of our exposure, and the Monolines guaranteeing them are now sub-investment grade

There has been restructuring and commutation with the monolines taking account of those factors, we have increased our credit provisions to a total of 4.5 billion dollars, and as Chris has mentioned, this increased our coverage rate to 27%

Moving to Market Risk, it's helpful to understand trends in the external environment

If we held a hypothetical steady FTSE position through the first half, that steady position would have shown an increase in DVaR as market volatility increased from the start of the year

And if we held a hypothetical steady currency position in dollars-against-sterling, the DVaR would also have increased as market volatility moved higher during the first quarter

So these two steady positions would have led to higher DVaR over time even though the positions would not have been changed in any way.

Barcap's actual DVaR increased during the first quarter as we positioned more risk and as DVaR trended higher because of volatility moves in the external market

After reaching a peak toward the end of the first quarter, we have reduced some trading positions and Barcap DVaR has moved lower through the second quarter

It's also important to understand the source of trading revenue

and for that we look at the distribution of daily trading – profit – or - loss from market-

making and trading activities.

This shows there were just over 30 trading days at Barcap where profitability was between 0 and 30 million pounds, in the first half

The distribution of trading P&L shows that most trading days were profitable and that there were few days of trading losses.

Now when we adjust that trading P and L by adding fees and commissions we get total income, and this distribution is even further to the right.

The clear majority of profitable trading days on the right hand side is the result of a customer driven trading and risk management business.

The Barcap business is not focused on proprietary trading.

Let me now close with some comments on trends and our outlook

Most western economies remain in recession, The US was earlier to slow down, and it will probably be earlier to recover, although unemployment will still continue to rise

We know that unemployment will lag recovery, and that retail impairment will lag unemployment

There are still high levels of household debt and we expect retail impairment in most markets to continue to rise through this year and into next year

For Barclays, we have positioned many of our retail portfolios defensively over a number of years and for our main books, such as mortgages in the UK and Cards in the UK and the US, our impairment levels continue to run at the low end of the industry

And in these larger portfolios, there are signs that recent vintage lending is performing better . . . and that early delinquency rates, and roll rates into later delinquency will soon start to stabilise

For Wholesale credit, many of the same factors are relevant

Many companies are being run to preserve cash, and they've been reducing inventories, cutting expenses, and delaying spending

Corporate downgrades, restructuring, and defaults have increased, and where companies are closing, the residual value of remaining collateral is much lower

That causes a drop in recovery rates, which will remain an important driver of commercial impairment going forward

When we enter recovery, as companies try to rebuild and restock, there will be further stress on corporate cash flow.

We therefore expect an increase in late cycle defaults, and individual large company default has become a greater risk. Finally, let me give you some comments on our impairment outlook for the second half of the year.

In February, we shared with you our planning range for this year, because we expected a large step change in the credit environment from 08 to 09, and we wanted to help explain that large step change.

When we look ahead now, we expect more of a continuing trend . . . rather than another large step change.

We note that the analyst forecasts for full year impairment are across this range and the centre part of this range, from 9 . . . to 9 point 6 billion, seems reasonable at this point.

Of course we should keep in mind that currency moves and economic developments could affect our retail and wholesale trends.

Stepping back, when I look at the bigger picture compared to six months ago, the economy is weaker than expected, and there is still volatility and uncertainty.

However, I believe that while our industry continues to face a lot of challenges, the range of possible outcomes is better defined today.

We plan to update you on our trends when we provide the next interim management statement.

Thank you and I'll hand over to John now.