2010 Interim Results

5 August 2010

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You have heard from Chris on our financial performance in the first half and from Robert on how we have managed our credit and market risk over that period.

My intention is to start my remarks with a brief point of perspective then show you how we have done against the scorecard of input goals that I set out in February but spend most of my time reviewing our progress on the three objectives against which we have been managing Barclays since the start of the crisis.

Which are staying close to customers and clients; managing our risks; and maintaining strategic momentum.

First, though, my point of perspective.

There remains much debate about what is expected of banks given the events of the last three years.

The objective of a bank which is owned by institutional and private shareholders must be to generate returns for its owners.

But banks must also, in ways consistent with that objective, contribute to the well being of society, by conducting their business responsibly and by performing, well, their core functions of payments and money transmission safe storage of deposits and the investment of savings maturity transformation and lending and the provision of advice and execution in underwriting and trading.

These activities lie at the heart of every modern economy and if economies are to grow (with all the beneficial consequences that flow from that), then banks must undertake those core functions and help their customers take appropriate risk.

As I think about the areas that I will review with you this morning, that nexus, the conducting of core functions, leading to risk taking by banks facilitating risk taking by customers leading to economic growth and jobs leading to returns to shareholders that nexus is at the front of my mind.

So to the scorecard. In an environment that whilst not as severe as it was this time last year remains quite volatile and unpredictable I am pleased with our performance against the criteria I've listed here.

We have been able to maintain our leverage ratio at the bottom of our range, notwithstanding the significant growth in our liquidity pool.

Similarly, despite a small increase in the volume of risk-weighted assets (driven by a combination of currency and risk-weightings) and the decline in the value of our

BlackRock stake we have maintained our Core Tier 1 capital ratio at 10%.

We achieved that principally because of our ability to create equity through profit generation which we have been able to do, consistently, through the crisis.

One continued consequence of holding high levels of capital is that our return on equity is not where it needs to be.

I said in February that, in the medium-term we will seek to generate a return on equity that exceeds our cost of equity, over the cycle.

Whilst I don't pretend that will be simple in the short-term in particular because the cost of equity for banks is likely to remain quite high for some time we are intensely focused on improving our returns and, as a consequence, we are driven by the pursuit of returns before growth.

On funding and liquidity, our liquidity pool has now grown to 15% of our adjusted tangible assets and is very substantially higher than the level of three years ago.

We have pre-funded, in the first half, all of our 2010 wholesale, term refinancing, requirements.

We believe that the current tiering of names in the wholesale market will persist for some time and that, as a result, funding costs are likely to be an important area of differentiation in the future.

We have lowered our loan-to-deposit ratio in the first half.

Improving this ratio remains another important area of focus.

On jaws Chris has described the picture to you.

There are two important variables here.

First, the ability of our cost base to respond to changes in the income environment – we calculate that just short of 30% of our total cost base is discretionary or variable, and that gives us flexibility.

Second, the investment that we have underway across the businesses.

I will cover the specifics of investment a little later but, subject of course to our impairment performance continuing to improve in the way that we have indicated we think it's right to continue to invest in areas of strategic importance to the future of the Group.

And, lastly on the scorecard, we have declared a second interim dividend of 1 penny, bringing our year-to-date total to 2 pence per share.

These payments reflect the policy that we announced in February, which is that subject to maintaining an appropriately conservative stance because of regulatory uncertainty we would pay an annual dividend, in the future, progressive relative to an annualised run rate, in 2009 of 4.5 pence per share.

Let me turn now to our three objectives, which are listed on the screen now.

During the crisis of the last 3 years, at the heart of our ability to generate profit and therefore equity has been our income performance.

Income is a proxy for the strength of customer and client relationships or the strength of the franchise, if you will.

Furthermore, our income levels benefit from running a broadly-based bank at Barclays.

So against a backdrop of subdued economic activity, and some fragility of sentiment triggered by the Eurozone sovereign debt crisis we have again posted solid income growth in the first half.

If the economic cycle continues to improve the impairment line will also improve with good prospects for the conversion of income into future profits.

Let me put my franchise point into perspective by talking about income at the business unit level.

The income generated by Barclays Capital in the first half of 2010 reflects the continuing benefits of the Lehman transaction.

That income was also broadly-based.

You can see that in the next slide, which shows the usual profile of income by asset class.

There is strong growth in Equities and Prime Services, and resilient performance in Investment Banking – which are areas where we have been investing over the past 18 months as well as good relative performance in areas of historical strength – Fixed Income, Currencies and Commodities.

I know that you follow closely Barclays Capital's quarter by quarter income performance.

Chris has described that sequence.

What it illustrates is the strength of our flow business.

Like any investment bank, Barclays Capital is not immune from the economic cycle, or its impact on client activity but I hope you agree that we have shown some evidence, over the last five years that the business we have built in Barclays Capital has become less sensitive to gyrations in the economic cycle because of its asset class diversity and client centricity.

In Barclays Wealth, our income performance in the first half is starting to show the benefit of the investment we have made in our UK business over the past years as well as the growing impact of the Lehman-originating American wealth business.

We now have a broader investment programme under way, which we refer to as the Gamma plan.

Across Barclays Corporate, UK Retail Banking, Barclaycard and Absa the income performance has been fairly resilient, despite where we are in the interest rate and economic cycles in the UK and South Africa and in the many other markets in which we do business.

Just on Africa for a moment.

Absa and the African businesses of Barclays, on a combined basis, serve about 14 million customers, on a continent that holds much promise for the future.

It is a unique footprint, and I want us to create greater customer advantage from the fact that these businesses co-exist in the same Group.

Finally, here, a comment on lending.

One of the most tangible ways in which we can demonstrate our commitment to customers and clients is our support of them through increased lending.

In 2009, we committed to making an additional £11bn of credit available to the UK economy.

In fact, that year we lent an additional £35bn.

We have continued that strong trend in the first half of 2010 lending an additional £18bn to UK households and businesses.

There is much comment to the effect that banks are not lending.

The facts that I see paint a different picture.

Here is a slide that shows monthly trends – this is Barclays data – in:

approval rates on loan applications from business customers – that's signified by the yellow line;
and credit application volumes – signified by the blue line.

You can see that application volumes have fallen steadily, while approval rates have gone higher from a high base.

And this next slide shows you monthly trends in the utilisation of committed overdrafts by Barclays business customers in the UK of different sizes.

We see no evidence of a widespread, unmet, need for credit across these segments.

2009 was our busiest year for business start-ups since 2003; and start-ups in 2010 are running 14% ahead of those of 2009.

But what about the price of credit?

Let's look at two examples comparing 2010 versus 2007:

on the left, the cost of a commercial mortgage – arguably the toughest area to find credit in the UK;
and on the right, the cost of a UK residential mortgage.

The bars show averages – I acknowledge that – but the trend for most customers is very clear: their costs of credit are down.

And remember that, from the point of view of the lender the cost of capital, cost of funding and cost of risk, have all risen over this period.

I'll turn now to our second objective: managing our risks.

A key differentiating factor in the performance of banks throughout the crisis has been their ability to understand and manage risk.

That remains very relevant.

Although there is light at the end of this tunnel, I think it's pretty clear that, for the time being at least, we remain in the tunnel.

So we must be vigilant.

Robert has taken you through the detail of first half risk management as well as our forward expectations.

I want to step back, and look at risk from a strategic perspective.

The business of banking is the business of risk.

Economic growth has a high dependency on banks helping their customers take appropriate risk.

If banking were to become risk free, then for sure it would become socially useless.

Strong risk management, therefore, sits at the heart of a bank's ability both to deliver its core objectives of generating returns for shareholders and of contributing to the well being of society by facilitating growth.

Now, the recent crisis highlighted many faults in risk management systems across the banking industry.

And because the consequences of those have been so severe, the financial system needs better buffers for the future.

Making the system safer will, as we know, require a lot of change relative to where we all were in 2007.

This next slide shows you the Barclays of today compared with the Barclays of 3 years ago in the areas of Core Tier 1 capital, leverage and liquidity.

As you can see from the comparison of 2010 with 2007 those who say that there has not been any change in the industry are ignoring the facts.

The G20 reform agenda is focused on changes (relative to pre-crisis positions) in these, and other areas.

We support the direction of this change whilst reinforcing the need to apply two principles.

First, the changes must be made consistently across the globe, to create a level playing field.

I'm not looking for homogeneity – that would be unrealistic.

But as the needs of customers and clients have increasingly globalised, so have the services which they need from their bank.

That means that risk is globalising too.

The evidence of that fact has been clear during the crisis – the risks that hurt the world paid no respect to geographical borders, because of increased interconnectedness.

Second, the changes must be sequenced and phased in a way that allows banks to support economic recovery and job creation.

If the changes are introduced too quickly, they will limit the ability of banks to lend.

I have seen the recent changes to the Basel 3 proposals described as some sort of victory for the banks.

I don't think they're that at all.

The final decision makers here will be the governments and regulatory authorities.

Ultimately, a resilient banking system is the servant of the economy.

It is the economy that demands that reforms are calibrated and sequenced.

As they make their decisions, responsible governments and regulators are rightly taking these things into account.

Stress testing is one important way in which to judge the quality of a bank's understanding of risk, and its ability to manage it.

Barclays has now been the subject of a number of external stress tests since the crisis began three years ago including the recent one by CEBS.

And, in any event, we run weekly internal stress tests in our key portfolios and we regularly assemble a top-down view of the resilience of our capital and liquidity positions to different stress scenarios.

The recent crisis has introduced a new risk to the market's vernacular – resolution risk.

Because of the “too big to fail” issue which confronted many governments during the crisis we understand entirely why the authorities are focused on ensuring that such situations never arise again.

Resolution regimes are important because, if bankable, they will answer many topical questions about the shape, and size, and risk mix of banks.

We support these efforts, and we are playing an active role with the authorities in trying to devise appropriate resolution tools.

But the biggest strategic risk that we face remains regulatory uncertainty.

The shape of the final regulatory structure is starting to emerge.

I’m referring to:

The Financial Services Act of 2009 and bank levy in the UK;
CRD III across the EU;
The Dodd-Frank legislation in the US;
And the revised Basel Committee proposals.

But the precise impact of these measures and of the wider G20 reform agenda both on the industry, and on the competitive landscape within it, remains unclear.

We think it’s important not to be fatalistic about the risk of this uncertainty.

We must engage as best we can, through active engagement with the relevant authorities.

One important area of engagement over the next year will be with the Independent Banking Commission here in the UK, which is looking at structure and competition.

We recognise that some commentators hold the view that a successful reform package requires the deconstruction of universal banks.

Resolving this question is an important part of the Commission’s terms of reference.

There needs to be an appropriate public debate.

But it is important that that debate is empirical, unemotional, and thorough enough to avoid unintended consequences.

As you know, we believe that the merits of the universal banking business model are grounded in fact.

In looking at the issue of the merits or demerits of broadly based banks, there are three principal issues to address.

First, do clients benefit from the services that broadly based, multinational banks provide?

Our view is that banks like Barclays have become what they have become, in response to client need.

A simple example: almost all of the companies in the FTSE 100, let alone thousands of other UK companies, have material businesses outside the UK.

Their needs include the cross border requirements of trade finance, foreign exchange, and interest rate, currency, and commodity hedging.

These are services which narrow banks are typically ill-equipped to deliver.

An export-led recovery in UK economic growth will require the presence of banks which can deliver these services.

Second, are broad banks more susceptible to failure?

The empirical evidence suggests there is no correlation at all between narrow banks and resilience to failure.

Indeed, the observable correlation is the reverse.

You need only look at the results of the CEBS stress test for direct evidence of that.

The banks that needed pre-test surgery, or which failed the tests, were typically narrow banks.

The evidence of the CEBS stress test, and of the last 100 years, is clear by converting broad banks into narrow banks we will make the system less safe, not more safe.

What correlates mostly with bank failure is inadequate risk management.

The third issue, is the impact of the failure of a broadly based, multinational bank likely to create risks beyond its own failure?

Here, reform is clearly needed.

The reform agenda I noted earlier is oriented precisely at materially reducing such knock-on risks.

The stronger buffers provided by higher capital ratios, higher quality capital, larger pools of liquidity and lower leverage improvements in derivatives market infrastructure, and the migration of more derivatives into standardised forms that can be traded via exchanges as well as more radical (by current standards) developments of infrastructure and equipment such as “bail-ins” and contingent capital these are all being designed both to help reduce the likelihood and impact of bank failure, and to protect depositors and taxpayers.

Better consistency in these regimes and tools, as well as in cross-border crisis management, will materially increase resilience in the system.

The banks need to step up to this work, irrespective of their views about the probability of their own failure.

A number of UK banks, including Barclays, are actively engaged with the FSA on their important work on recovery and resolution plans.

These should become as important a part of the supervisory dialogue as stress testing.

I am going to turn lastly to our third objective: maintaining strategic momentum.

Despite the regulatory uncertainty that I just highlighted our strategic flightpath is very clear.

We remain focused on continuing to increase the growth prospects of the Barclays of the future by diversifying our business and geographical footprint.

In the first half of this year, about two thirds of both the income, and the profit, of the Group came from outside the UK.

Although it has not got a lot of attention amidst all the events of the last three years, our ambition to diversify geographically has been significantly advanced since 2007.

Increasing the future growth potential of Barclays for the medium term, whilst pushing hard to raise returns in the short term, creates a number of present day priorities.

We want to capitalise on the position of Barclays Capital in the post-crisis investment banking industry, by building out our equities and M&A platforms, and by maintaining cost flexibility.

We are executing our Gamma plan in Barclays Wealth, with a view to transforming the scale of this business.

Our governing principle is pay-as-you-go, but the Barclays Wealth of five years hence will be contributing a much bigger profit to this Group.

We are in the middle of developing the international arm of Barclays Corporate and building stronger links with Barclays Capital to support international expansion.

We will lay out the progress and plans for Barclays Corporate at an investor seminar in the first half of 2011.

We seek to deliver against our four objectives for Global Retail Banking:

Strong profit growth;
An improved loan-to-deposit ratio;
Depth, not breadth, by business line;
And the generation of net equity.

You had the opportunity six weeks ago to hear from Antony Jenkins and his leadership team how they intend to do that.

Although the climate has remained difficult in 2010 our results have been resilient and our continuing profit

performance is, I hope, a source of pride to the people of Barclays.

Their focus, and the focus of my Executive Committee colleagues, is on making sure that we look after the interests of customers and clients for whom the credit crunch and the recession have created significant threats and opportunities.

We also know that our shareholders expect us to deliver another year of solid profitability.

We intend to do that.

Thank you.   We will take your questions now.