

## 2010 Interim Results

5 August 2010

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Thanks Chris. Good morning

Today I want to review impairment, and will cover wholesale and retail credit, with a quick review of some Eurozone exposures and a deep dive on impairment in Spain.

I'll then look briefly at market risk, and will share with you our views on the outlook.

Let's start with impairment by looking back at our loan loss rate, which has averaged about 90 basis points over the last 20 years.

This includes a period of very high impairment from the property slump in the UK in '92.

That was followed by a recovery period of about five years with low losses as the loan book was rebuilt.

And then a longer period with more normalised impairment, including restructuring in the international telecoms industry which occurred mostly in 2002.

Finally in the last three years, we have seen the rapidly increasing and now reducing loss rate during the financial crisis.

We reported a loan loss rate of 118 basis points in the first half of this year, down from 156 for last year.

And it's reassuring to me that through the positioning of our portfolios, and their diversification, the move in our loan loss rate was relatively moderate, and we remained profitable throughout the last three years.

From here we expect the loss rate to move toward the long term normalised range.

Today I want to explain how wholesale and retail have moved differently, and to give you a sense of the trends that shape our outlook.

Let's review how recent trends in loan impairment reflect our business model.

A benefit of universal banking is that impairment is diversified by product and by geography, and in practice it's also diversified in different phases across time periods.

Let's look at some examples of that.

In both BarCap Credit Market Exposures and US cards, impairment increased earlier as those markets were affected by the early slow down in the US.

For other areas, including the general loan book for BarCap, the larger corporate business in the UK, and the retail books in Spain, impairment increased more during the middle part of the recession.

And for others, such as UK unsecured lending and the corporate business in Spain, impairment has increased later in the cycle reflecting the timing of changes in the credit environment for those areas.

Impairment is now moving down from the recent high levels, at different points in time and at different speeds.

In some areas like the credit market exposures and BarCap loans, reductions have been earlier and faster.

Other reductions, including most retail areas, began later and the reductions will be more gradual.

This phasing provides a diversification benefit through our business model across products and also across periods of time

These trends are important because they help form our impairment outlook.

Let's look at total impairment, which is down 32% on the first half of last year.

A good part of that comes from the reduction in Available For Sale and Reverse Repo impairment.

I'm going to focus today mostly on loan impairment, which reflects the performance of our core portfolios.

Let's examine loan impairment by business, not including Available For Sale and Reverse Repo.

Loan balances have increased, mostly from higher settlement balances in BarCap, and from continued growth in retail lending.

Impairment has been steady across Barclaycard, Barclays Corporate and the UK Retail Bank taken together.

UK Retail Bank impairment is lower from the end of the year as delinquencies have declined and house prices have stabilised.

BarCorp has also been steady, with a drop in UK impairment and an increase in Spain corporate loan impairment, which I will cover later.

At BarCap there has been a significant reduction over the last year across credit market exposures and the traditional loan portfolio.

Other portfolios were broadly steady last year but have improved in the first half of this year.

And so across the group we have seen a 24% reduction in loan impairment since the first half of last year.

Lets review the wholesale impairment charge by business

Impairment on the loan book at BarCap declined again in the first half of this year, as charges on some assets were offset by releases on other assets which have been restructured or sold.

This dropped impairment for the first half below the expected loss level for this part of the cycle.

Impairment on Credit Market Exposures has dropped significantly over the last year, and with the relative stability in those markets we don't expect to see a significant increase in this area.

After an increase in impairment in Barclays corporate in the UK last year, impairment has declined considerably this year as many UK companies have been recapitalised and refinanced and as fewer companies have entered administration.

And the international corporate books saw an increase over the last year, mostly from corporate exposure in Spain.

Across the other books, impairment has been broadly steady.

So in total over the year, wholesale impairment reduced by 37%, and our loan loss rate declined from 141 basis points to 86 basis points.

And after this period of rapid improvement in wholesale impairment, further reductions will be at a slower rate.

Let's move to Retail now, where delinquency rates have generally been declining across businesses.

In the UK portfolios, we've seen a reduction in 90 day plus delinquency, from credit actions we have taken since 2008.

And in UK mortgages, with our average Loan to Value of 42%, delinquency is lower, and I would add that the loan loss rate in the first half was 3 basis points.

In the international portfolios, delinquencies have generally declined even after the rises in unemployment in these markets last year.

Although in Absa, delinquency has increased slightly in mortgages as the effects of the recent economic slow down continues to be felt.

In Spain, mortgage delinquency has declined so that balances in collections are lower, although balances in the legal recovery book in Spain and Absa will remain elevated for some time.

Let's review Retail impairment by business.

There has been steady overall impairment at Barclaycard which reflects currency moves, some regional moves in the loan loss rate and steady balances across the business.

The UK retail bank had lower impairment in the first half.

And the international portfolios have had improving delinquency and again a reduction in impairment in the first half.

The other portfolios have been broadly steady, so that

Overall we've seen impairment decline by 11% from the first half of last year, while the retail loan loss rate dropped from 198 basis points to 157 basis points.

The impaired asset coverage ratio is important because it shows how impairment allowances relate to overall credit risk loans.

Let me remind you that CRLs are those assets for which we have taken identified impairment, mostly consisting of non-performing loans.

Retail CRLs have more than doubled since the middle of 2008, while wholesale CRLs have also increased significantly.

As a result, overall CRLs have increased by about 90% since the middle of '08.

In the last two quarters total CRL balances have stabilised, and this is a critical turning point for our portfolio.

Up to this point in the cycle increases in non performing loans brought higher impairment.

Now as CRLs have stabilised, impairment will gradually improve as collections and recoveries continue.

Returning to coverage, we have increased our impairment allowances by about 140% since the middle of '08.

And this significant growth in impairment allowances moves our coverage ratio from 42% to 52%, which is appropriate for our business mix.

Let's look at the business mix that delivers the overall coverage ratio.

When we review the coverage ratio by business type, coverage in the UK and international mortgages increased last year and has been steady this year.

That reflects steadier property prices for our largest market in the UK, and the conservative LTVs of that portfolio.

The wholesale book has shown an increased coverage ratio as impairment allowances have grown.

Retail unsecured has moved up to a 78% coverage rate, which is very solid unsecured coverage at this point in the cycle.

And together these have produced an increase in the group ratio from 44% to 52%.

Now let's review our Eurozone exposure in select countries.

We have some limited exposure to Eurozone sovereigns primarily held at fair value.

However I am going to focus on our lending books which form our principal activities.

Our lending on the continent is centred around mortgages.

And the two largest portfolios for us are in Spain and Italy.

Spain is our largest business and it is mostly a mortgage book, with an average current Loan to Value of 56%, and where only 9% of our lending is on secondary homes.

While our wholesale exposure in Spain is predominantly in Barclays Corporate and I will look at that in more detail.

To give some perspective, our diversified global book of loans and advances is £506 billion pounds.

Spain, as part of that, represents about 5% of our total global portfolio.

Within Spain, our retail business is mostly mortgages, and our wholesale loan exposure is mostly in Barclays Corporate.

I'll now look at our corporate performance in Spain.

There have been 3 continuing developments in that market.

First, the recession has been prolonged.

After the drop in GDP and the rise in unemployment last year there was some expectation that conditions would have stabilised more this year.

However the economy remains weak and this has affected the corporate credit environment.

Secondly, there has been further substantial decline in commercial property values as that market remains under pressure.

And finally, there is a much weaker refinancing environment as the Spanish banking industry faces capital and liquidity constraints.

Non performing loans are therefore increasing and recovery rates are declining; taken together these are causing higher losses in property lending.

Our exposure in the corporate bank in Spain is consistent with the industry, with about a third in property, and with construction this is about half of the portfolio.

The total impairment charge of £553 million in the first half includes a single charge of £125 million on an equity position we obtained from the restructuring of a property company that was completed last year, and the remainder arises from increased CRLs, reductions in collateral valuations generally, and higher related charges on SME lending.

For these first half impairment results we have assumed a 50% drop in commercial property valuations from levels of two years ago, including a 30% drop in commercial property values over the last 12 months.

The coverage ratio has increased to 41%.

Most of the non-performing book in Spain is secured property lending, and non-performing commercial property loans in general typically have loss levels of 20 to 30%, so the 41% coverage can be compared to those general levels.

Let me just summarise our impairment performance

Overall, impairment is down 32% from the first half of last year.

And most business areas have had reductions in impairment.

Wholesale has dropped sharply, and retail is declining more gradually.

There has been a significant reduction in impairment at BarCap.

While BarCorp international is the only area to have seen an increase.

Let's move to market risk now, where we will focus on BarCap.

Daily Value at Risk (VaR) is a measurement of market risk that is based on volatility ranges.

Looking back, VaR increased significantly during the second half of '08, as volatility increased in the market after the Lehman bankruptcy.

During the first half of '09, clients were very active and the inventory levels we maintained during this period resulted in higher VaR numbers.

In the second half of '09 and this year BarCap has actively managed risk to lower levels in line with the reduced inventory needed for client flows.

We expect VaR to remain in this range in the short term, although we have the capacity to increase risk as market conditions change.

The pattern of daily trading revenue at BarCap is another important market risk indicator.

Recently, in the second half of last year we had a right handed distribution of profit days where the vast majority of business days were positive and with only a few loss days.

The first half of this year has been very similar with a slightly flatter distribution, but a continued high concentration of profitable days and very few unprofitable days.

This shows again the benefit of the client driven strategy for trading activities in Barclays Capital.

I also review performance at BarCap through the perspective of risk and return.

This is the average daily trading revenue at BarCap, which has trended lower as client activity has been reduced.

At the same time, the VaR level shows that BarCap has actively managed risk levels lower, in line with the lower client activity.

Looking at the average daily trading revenue, over the average daily VaR creates a ratio.

This ratio shows that consistently through this period, BarCap's average daily trading revenue has been inside the range of 75% to 115% of the average daily VaR.

This trend demonstrates the strong risk adjusted performance at BarCap across very different market conditions.

Let's leave market risk, and look at the broader conditions ahead, which are critical to our general outlook.

We expect the major economies to continue with slow growth, interest rates to remain low, and unemployment to persist at or near recent high levels.

The Spanish environment will remain weak, however in other areas we expect asset values to be stable.

In the current credit environment non performing assets will remain at higher levels as CRLs have stabilised.

And now at this point in the cycle, loss severity risk will be very important in the recovery books.

So late cycle default risk and refinancing risk, especially in areas like commercial property, will remain important.

For our impairment outlook, we need to keep in mind that trends are moving at different rates.

The retail impairment charge has declined over the last 12 months, and I expect the trend to continue.

And whilst we've seen very significant reductions in wholesale impairment, I recognise that wholesale will have a slower reduction than previously.

Those two different trends are fundamental in forming our outlook, and let me close with that now.

On the market side we expect risk to continue tracking client activity levels, but with a capacity to increase risk as conditions change.

For impairment, we believe retail will continue to show steady reductions.

And wholesale impairment will continue to decline but at a slower rate than previously.

And as I mentioned, the recovery risk relating to non - performing assets will be very important at this point in the cycle.

These trends make me confident that we will achieve the better end of the 15 to 20% range of impairment reduction we have given as guidance for this full year.

Our current portfolio trends suggest that we will meet or may exceed that range; however in these uncertain markets I know it is better to allow for some level of unforeseen events, and to maintain our guidance.

Thank you, I'll hand over to John.