

Full Year Results 2009

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Robert Le Blanc

Thanks Chris. Good morning.

I'm going to review impairment across Barclays in 2009 and look at trends in our main portfolios. I'll also cover market risk and our outlook for this year.

At this time last year I gave you our planning assumptions for 2009 impairment. We could see that credit conditions were declining rapidly in many countries as economies slowed and unemployment picked up. We expected the Group's loan loss rate in 2009 to rise to between 130 and 150 basis points.

And I explained that this planning was based on three broad assumptions

- that economies performed at consensus levels,
- with steady FX rates, and
- a constant balance sheet

By the half year, the major economies were weaker than expected and we updated you that full-year impairment could move higher. We saw some improvement in impairment trends during the fourth quarter and our full-year loan loss rate came in at 135 basis points, on a comparable basis. The improvement in the last quarter was driven by a good performance in the wholesale books

where we avoided large single name losses as well as better trends in the retail books.

I'll take a few minutes now to explain how those impairment trends developed. Total loan impairment in 09 was 7.4 billion, and with the 700 million charge against available for sale assets, total impairment was 8.1 billion. The 7.4 billion gives an observed loan loss rate of 156 basis points, using the actual balance sheet and FX rates. We believe impairment for Barclays will peak well below the level we saw at the height of the property crisis in the early nineties. Barclays has a strong institutional memory of that experience and has worked hard to protect our portfolios from the effects of severe credit stress.

Let's look at 2009 impairment across the broad business groups, beginning with our UK and International retail portfolios where I said a year ago that we expected a large increase in credit losses. In the UK, higher unemployment has fed through to increased delinquency and charge-off rates in cards and loans. The international trend reflects the more difficult credit conditions in areas like the US and Spain, as well as portfolio maturation. As a result, the retail loan loss rate moved up above 180 basis points. In BarCap, we said we expected impairment against credit market exposures to decline, and that happened in the second half.

Impairment on BarCap's loan portfolio increased, as we expected, although this was moderated because we have not been hit by the significant single name losses that affected the industry. Impairment increased in commercial lending in the UK, with further deterioration across the portfolios. And the charge in our international commercial portfolios also rose, which in scale is

about 7% of Group impairment. As a result of these trends, we have seen a rise in the wholesale loan loss rate to just over 130 basis points.

This shows how Group Impairment allowances have grown. In 2009 we increased our impairment reserves by more than four billion pounds to almost 11 billion. That 64% increase has built up a significant buffer of impairment allowances across all credit categories.

To see how those higher reserves increase our coverage ratios, we divide the book into three categories. Looking across all the retail mortgage books, the ratio of impairment stock to credit risk loans increased during 2009, driven by the international books, and is consistent with the fall in house prices in those markets.

In our corporate loan portfolios – including credit market exposures – the coverage ratios also increased, as we adjusted our severity models given credit conditions last year. And in our other retail books, mostly the unsecured portfolios, we have increased coverage to match the declining recovery rates.

To compare coverage ratios across banks, you do need to look at the detail of these different categories. These three coverage levels are fully appropriate at this point in the cycle, for the severity rates we expect in these challenging credit conditions. Looking across these three categories, the Group coverage ratio increased from 42% to 48% during the year.

Now I want to review some portfolio trends. Let's begin with our UK mortgage business. We have a mortgage book of almost 90 billion pounds and our asset quality remains very solid. Our rate of arrears increased only slightly during 2009 and remains well below the industry average.

Our mortgage impairment charge increased by only 2 million pounds last year, and our loan loss rate remained very low at 3 basis points, as we maintained our very strong credit profile. At the end of 09, our average loan to value in the UK was 43%. And of more than 830,000 mortgages, we had less than 200 properties in possession.

To show you portfolio trends in our main unsecured books in the UK, we've combined cards and loans. The balance sheet has remained steady across the year, as we have continued to make credit available.

In UK cards, we have managed down limits in higher risk and dormant accounts and improved the quality of new lending. And in UK loans, we have been controlling risk by originating almost 100 percent of our new loans from our existing banking customers. Those loans that have been delinquent for more than 90 days have increased slightly year over year to about 2.1 percent of our portfolio.

As assets flow through our book, there has been a reduction in the roll rate coming through to later stage delinquency. The annual charge-off rate increased during the year from bankruptcies and

other factors, but was steadier in the second half.

Let's look at delinquency in UK cards as an example of what is driving current impairment trends. I want to explain that you cannot forecast impairment trends only by looking at total delinquency levels or accounting impairment numbers. At the end of last year, we had expected early cycle delinquency to continue to decrease as we improved our credit quality on new underwriting, and through better collections processes.

And as we expected, late cycle delinquency has increased from 1.4 to 1.9 percent as more cases have rolled through because of the economic slowdown and higher unemployment. As a result, overall delinquency levels have been steady. However the increase in late cycle delinquency is important because that is where the impairment charge is much higher. And that has led to the higher loan loss rate, even though total delinquency is the same.

So the point is that late cycle delinquency trends are very important in driving impairment. We therefore need to see a steady trend and then a decrease before we see a material reduction in impairment charges. At the moment, we see stabilisation, and we believe that late cycle trends will improve from here.

Let's look at the US Card portfolio. You will remember that the portfolio grew in the second half of 08 after a large partnership acquisition. In early 09 we again tightened credit criteria and reduced balances, particularly in the more risky open market segment. And our growth since then has been almost entirely in

the lower risk partnership channel, where we are seeing good income growth.

We have been conservative in our credit models over the last two years by using very high stress levels of future unemployment, to help protect our lending criteria. As a result, 90-day delinquency started to level off in the second half as flows into delinquency have slowed, and we are seeing improvements in the level of payments and the number of accounts in arrears. These trends will take time to work through to charge-off rates, which have risen as US unemployment has continued to increase.

Moving to the UK commercial bank, we said a year ago that lower business activity and lower asset values would put pressure on the portfolio and credit risk loans rose 45% in the first half as a result of the more difficult operating conditions for companies although we are reassured that the growth in CRLs slowed significantly in the second half.

The loan loss rate has increased mainly for two reasons: first, the denominator is smaller because companies have reduced leverage and conserved cash, lowering the demand for credit and reducing our loan balances and because the stress on corporate cash flow has caused impairment to move higher. For many years we have avoided concentrations in high risk areas like commercial property lending, so our impairment in that sector was only 50 million pounds last year.

In Barclays Capital, credit risk loans increased quickly during 08. However, 09 was better with a small increase in the first half, and a flat second half as credit conditions steadied. The BarCap loan loss rate fell in the second half as impairment dropped by over one billion pounds from the first to the second half. With lower charges across BarCap's credit market exposures, the available for sale assets, and the traditional loan portfolio. This decline from the first half was the key driver of the stronger impairment performance by the Group in the second half.

Looking at GRCB's international business – and here I'm combining retail and wholesale – CRLs have continued to increase, with the largest rises in Spanish wholesale and South African retail portfolios, in line with the weaker conditions in those countries. Following a large increase in the first half, impairment and loan loss rates were more stable in the second half, as wholesale and retail trends began to stabilise across most international portfolios.

Single-name corporate losses are important drivers of impairment. In general, the low level of single names losses in our wholesale portfolios has been a benefit to us in 09. The largest single name corporate loss in BarCap was 109 million pounds and the average of the next ten losses was 34 million.

Across all of our business with smaller corporates, we keep single-name exposures low, and the largest losses were in line with those portfolios. We know that the risk of corporate failure normally remains high even as economies recover. So we remain cautious about the outlook for single name losses in 2010.

Turning now to market risk. I want to update you on the number of positive daily revenue days at Barclays Capital. This is the 2008 distribution, which includes fees and commissions, and shows that even in the turbulent markets of 2008, the large majority of business days were positive. In 2009, BarCap client flows increased again, and an even larger majority of business days were profitable, demonstrating the extent and the value of that client franchise.

Let's look at the 2009 performance in even more detail. Daily value at risk was higher early in the year and then declined gradually as our management of client flows resulted in more moderate levels of risk. Although VaR is reported as a positive number, it is of course the possibility of a loss that would concern us and so we always look at the mirror image of VaR to show the possible expected downside. When we look at actual income from risk positions in DVaR, we track those days where income gain or loss on any day is more than 25 percent of VaR. Two things are clear: we remained well within risk limits during 2009, and there were only a few days when we made a loss of more than 25 percent of VaR and no days when we made a loss greater than VaR.

The majority of days were positive with an average daily income of 34 million pounds. And these figures do not include the extra revenue from fees and commissions which would bring the daily average up to 71 million pounds and which drove the 18 billion pounds of top line income at BarCap. This positive daily income pattern shows that BarCap's trading profitability is driven by its client franchise contributing steadily to income.



BarCap continues to grow revenue faster than risk, and this performance is only possible because BarCap is client driven, relying on business flow, not on proprietary trading.

Before I finish, let me look quickly at two measures that show our risk adjusted performance. We focus on the stability of our earnings stream, tracking revenue relative to the volatility of that revenue. In this chart, we show a ratio of revenue to risk for BarCap. This is a simplified Sharpe ratio using monthly revenue, divided by the standard deviation within each month, and grouping these results into averages for the half-year periods.

To make the comparison we start back in 05. At that point we saw good revenues and lower volatility and the trend was positive. And as we went into the difficult period of 07 and 08 we would expect that trend to drop as revenues decreased and as volatility of revenues was greater during that period.

We have seen an improvement in early 09 and an even better performance in the second half of 09 as revenue streams rebuilt and volatility decreased. This shows two things, that BarCap's quality of earnings in 09 has rebounded very well and that BarCap's client franchise is driving a risk adjusted performance even better than we saw during the years before the financial crisis.

This is the way I look at risk adjusted performance across all of Barclays. The white line is annual income and it shows that the Group has generated strong income over many years. The yellow

line is impairment as a percentage of total income, which remained within a narrow band during those years.

We look ahead through stress testing to estimate our credit performance in severe and extreme conditions. For 2009 we estimated that in a severe stress our impairment would be 23% of income. And in an extreme stress we estimated that impairment could be as much as 38% of income. And we manage our portfolios to control our risk in those conditions.

In 08 and 09 actual impairment increased significantly, but our performance during these very difficult credit conditions remained within the ranges of our stress estimates. And during this time income again increased significantly. Even our 2008 income level would have adequately covered our impairment charges. And our very strong 2009 income provided an even larger buffer against the higher credit losses. This shows me that Barclays' risk adjusted performance was resilient even through the down cycle, and that going forward as conditions return to more normalised levels, we will see further improvement.

Now let's look forward this year across our main markets. The consensus view is for moderate economic growth, and for interest rates to remain low. House prices are expected to be more stable and unemployment to remain at recent high levels. Of course, these economic factors are very important for credit conditions and for our planning work on impairment levels.

Last year we shared with you our planning range for loan loss rates because we expected a very significant shift in impairment levels. This year, although the rate of change will be much less, we will again give you some guidance. Based on the central economic views I have described, and based on the trends in our portfolios, we expect to see 4 things. I expect the gradual improvement in retail credit trends to continue, and that wholesale credit trends will stabilise, and begin to improve later in the year. We also expect Credit Market Exposure and Available for Sale impairment to be lower again in 2010. And we expect single name corporate losses to remain difficult to predict as you would expect in these conditions.

To form an overall view for impairment in 2010, we should keep in mind that last year impairment dropped about 20% from the first half to the second half as BarCap impairment improved significantly. My view now is that across the Group, we are past the worst, and have now seen the turning point in impairment.

Therefore I expect a moderate decline in impairment year on year from 09 to 2010, but not as fast as the 20 percent drop we saw from the first half to the second half last year.

Economic conditions are still fragile but on track for recovery across many regions and as this continues, I believe that the risk adjusted performance of Barclays will continue to improve in many areas, and overall will begin to move toward more normalised levels.

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