



Barclays Capital Investor Seminar New York – 17 June 2009

Question & Answer Session

Question 1

Mark Hockie, Cramer, Rosenthal and McGlynn

I just had a question going back to your comments on the cost front. Performance there has been quite good over the years, as you noted. I guess my concern going forward is given the Lehman acquisition and the build-out in New York, in particular, that we are going to see some more operating leverage possibly on the down side with multi-year guarantees. Can you perhaps address that issue and give us a flavour for what would happen if revenues you know, end up on the worst case scenario that you painted on the slides? Thanks

Bob Diamond

Jerry, why don't you say a little bit about the hiring and how that's going and then Rich if you can pick up by putting hiring in the context of the overall clusters?

Answer – Jerry del Missier

Well the market environment has never been more favourable for building organisations. In fact the numbers that we were talking about earlier, the bulk of the hiring has been done and it is in an environment certainly that is friendlier than we have ever seen before. Both in terms of the quality of people available as well as the new reality of the financial environment certainly that the market was in in the last quarter of 2008 and the first quarter of 2009. So this is not a multi-year very expensive build-up. This is something that will be completed relatively quickly. It's certainly within the realm and scale of things that we have done in the past and we remain extremely confident in our ability to execute on a pay-as-you-go basis and a way to manage that additional operating leverage and frankly we expect that by 2010. The build will be complete and that we will be well on our way to monetising the investment.

Further answer - Rich Ricci

I think that's right. I would echo that we take the whole pay-as-you-go philosophy very seriously. The hiring budget is based on a very conservative set of revenue assumptions. There are various check points throughout the year where we check and measure our hiring against our plan. Where we are against other businesses performing and can accelerate or decelerate depending on what that business view looks like. So we are confident that we can maintain the build out as Jerry said in the pay-as-you-go format and be successful and quick in doing it. So the cost issue is one which again, obviously it is a worry but it is managed dynamically in the context of the current environment.

Bob Diamond

Let's take one more question here, JP and then I will see if we have some coming from London over the audio.

Question 2**John-Paul Crutchley, UBS**

A couple of questions if I can. Firstly there was a slide where you talked about, or had resonance being the global player as you sort of compare yourself against. There was, on that list, one German bank, one Swiss bank and two Americans. And clearly we are in an environment where the regulatory framework is very much evolving post crisis and the FSA in London have been the most vocal I think about looking at the way investment banks operate and more Cap allocated to them. I just wondered, do we get into an environment where the regulatory environment which those institutions operate in make it different for them to achieve their objectives? And then maybe relate that back to Barclays directly in terms of capital. It is interesting that the slide you showed on the balance sheet where BarCap depending on which numbers you want to take, is somewhere between 60-80% of Group assets, risk assets or whatever. But it is still a modest proportion of the economic capital relative to that number allocated within Barclays. So as Barclays Capital becomes bigger, does that present more challenges for actually how the Group thinks about Capital and operates, particularly given some of the independent investment banks that have much higher stand alone capital ratios than Barclays?

Bob Diamond

I think it is kind of two questions. One do we feel a competitive disadvantage being British against the Swiss, the German and the two Americans. I will ask Jerry to say a few comments on that. And then, how does our balance sheet fit in with the Group and risk in the Group and I will ask Rich to say a few words about that.

Answer – Jerry del Missier

Well in terms of the competitive landscape, we look at our business as probably being the most geographically balanced and diverse of any of the major competitors. We are bigger in Europe than the Americans, we are bigger than the Europeans in the US. And that gives us I think a very, very strong platform with which to compete globally. I don't think you are going to see wide divergence of regulation that suddenly hampers one jurisdiction over another. I think you will ultimately see some degree of convergence ultimately in principles as the regulatory reform takes place over the next couple of years.

Answer - Rich Ricci

As you know JP, we have a system within the Group that tries to allocate economic capital on a risk basis. That divergence historically between economic capital and regulatory capital is becoming smaller and smaller. So from a competitive prospective against other stand alone investment banks, I don't see it as an issue. I

think from a Group prospective, I think over time as John and Chris have said many times, Barclays Capital will be 30-40% of the business rather than maybe 50-60% as you suggested and that will even itself out over time.

Question 3

Ian Smillie, RBS

Three sets of questions. The first one is could you quantify for us cost to the Group P&L of the rougher liquidity and funding environment that you describe? And can you give us some idea of how long it will take you to get there? And should we expect that to be absorbed by the divisions or will that be carried by the Group centre when we are thinking about our divisional forecasts? That is the first set of questions.

Bob Diamond

So the first question was how do we account for liquidity and funding and cost of equity and all those within the BarCap numbers?

Ian Smillie

To give us some idea of the quantification of the P&L cost to the Group from having to hold a bigger proportion of government bonds, from having to have a more liquid balance sheet?

Answer: Bob Diamond

I think the short answer to that is you see to the extent that that is funding for the balance sheet and the positions in BarCap, you see it go through the P&L on a day to day and quarterly basis. We absorb the full cost of funding for the positions, if that's what the question was.

Further question

The question is more if looking forward, the balance sheet will have a higher proportion of liquid assets in the future than it has had in the past. And what I am asking is how long will it take you to get the balance sheet of the Group and primarily BarCap to that more conservative place? And what will the P&L cost be for so doing?

Bob Diamond

Well we have Chris Lucas, our Group Finance Director, here who is happy to take that since it really relates to the Group wide balance sheet.

Answer – Chris Lucas

Thank you. Ian good morning. The cost of the additional liquidities is pretty hard to pull apart at the moment, partly because we don't know what the end result will be. Our expectation is that it will be in terms of timing, pretty much transformed I think through by the first half of next year. That sort of time frame. In terms of where the

costs sit. The costs of that additional liquidity sit within Barclays Capital results that we showed you for the first quarter back in May.

Bob Diamond

I think you had a second question?

Question 4

Peter Toeman, HSBC

Hello, if you can hear me. I was interested in your comments about the 15% RoE or 20% RoE through the cycle and I wondered to what extent that sort of projection might have been influenced by the regulatory changes as regards capital. We know that the FSA, seem to think that the amount of capital held for trading business is generally too lax. Do you think that a tighter regulatory regime would actually bring about a meaningful reduction in your 15-20% estimate?

Answer – Bob Diamond

Well let me answer first. It is really a question, for those of you who didn't hear it clearly, in terms of our 15-20% returns over the cycle, how does that get impacted by regulatory changes, as they have been announced and as they continue to come on? We thought long and hard about the 15-20%. We feel pretty strongly that is the right area for you to think of for the top performing investment banks. We are pretty confident of the 15-20%. We are certainly taking into account exactly what I said, that banks, including Barclays and certainly including Barclays Capital will operate going forward with more capital, with less leverage, with more liquidity and in a more rigorous and interconnected regulatory environment. Clearly we don't know every single decision that is going to be made over the course of the next months or the next years, but we are taking into consideration the likely path that we talked about in terms of travel. Jerry would you add to that?

Further answer - Jerry del Missier

I guess what I would add is that we clearly, in looking over the next several years, we see clearly an environment that while it is not perhaps at the levels of '06 & '07, given the new guidelines, we will still be able to generate significant returns in that 15-20% range on the basis of growth that we see, not just in new businesses, but in our ability to continue to drive growth in virtually every one of our other franchises.

Question 5

Brad Hans, Sandford Bernstein

Could you describe your plans for the commodities business. That has been a successful business for you. But your comments about focusing on liquidity, the one thing you can say about commodities, it is probably not a very liquid business. And then when you talk about the plans, could you also give me any insights that, does the conversion of your two largest competitors to a bank holding company structure, does that level the playing field in commodities trading for Barclays? Does it provide an opportunity for you? And do you have any specific plans in the United States in terms of expansion in commodities?

Answer - Jerry del Missier

To answer the question about the other competitors, we certainly feel that we always had the platform to compete quite effectively with those firms. So we don't see any issues there. Commodities remains an area where we see continued growth. It is not so much about liquidity, but you know what is going on with the global economy and the importance of commodities to many high growth economies. We see that as a major driver of growth over the next 5-10 years. We have built on our business systematically in a way that is very integrated. We have always believed that in order to be a top-tier player in commodities you need to be involved in the business soup to nuts from when companies are there, finding the stuff in the ground, helping them sell it, helping them hedge price risk, working with consumers to hedge price risk, and ultimately allowing investors to participate in the commodity markets. And the way we have organised our business is very much on an integrated basis to take advantage of all those elements of the business. That platform has been strengthened significantly with the Lehman acquisition. Lehman had a very strong natural resource and energy banking team which fits very well with our strategy of focusing on our growth in North America. Certainly that is what we have been doing for the last few years. We have expanded our physical capabilities and we see still continued growth in that field. We have benefited from the consolidation in this business. A number of financial institutions have exited commodities in the last year and we have seen our market share grow. In fact we have been involved in helping some organisations manage their exit from the business and we would see that as a continuing trend. We have stated publically we think we have the opportunity to be number one in this business. We have the strategic shareholder in China that is very keen to see the commodity markets in that economy develop and we aim to be a very active participant in helping them build that.

Further answer – Bob Diamond

Let me add a couple of things that are both about our commodities business which is a great question because it is a real focus for us, but it also helps to bring some of the other things we have talked about to life. In commodities, one of the strong competitive advantages we have had for years Brad is, as Jerry said, are a client franchise in Asia particularly China, in the Middle East and in Africa. And Barclays is the number one bank in Sub-Saharan Africa. In the interest in both the Middle East and China to invest directly in commodities in Africa for example, frankly without going through London or without going through New York is a big competitive advantage with our strategic relationships both in the Middle East and in China. The second thing I would say is I think commodities is a good example of what Jerry was saying in answer to our first question. We were nowhere in commodities in 1999 and 2000. I think our revenues were £25 million and our profits were negative, if flat. And you know we have built that business from the ground up, but we did it as pay-as-you-go and we did it as one product, one region, one market at a time. It wasn't some big thing that created chaos in our P&L, it was profitable as we built. And as Jerry had said, we are not put off by building. We really like to build businesses. We think we are really good at building businesses

and we think this environment in the Lehman acquisition give us the greatest opportunity to take a couple of these businesses to the next level.

The third thing I think commodities brings out. One of the things that I love about the business is the whole concept of putting our risk in our client businesses. We don't have a proprietary trading business in commodities, we have a client business that takes risk. But we talked about the oil prices earlier, 40-60-145-40-70, during all that volatility our revenues in commodities continued to grow. It wasn't you know 'got a hunch, bet a bunch and put your money in the oil market'. It was a client driven business. So whether prices were flying higher or collapsing, our business still did quite well, because it was focused on clients and helping them manage their risk. So I think all three of those are important to bring out in terms of the things we are talking about in building our businesses.

Question 6

I have a question. Last week I think the UK press reported that you commented that the revenue performance of Barclays Capital in the first quarter you thought was sustainable for the rest of the year or for the future. Looking at the operating conditions that we've seen the first part of this year, they seem to be to be very, very exceptional. We've had a very steep curve a rally in credit products. We have had the introduction of quantitative easy very strong rally in equities from the bottom in March. So when you say that the revenue performance is sustainable, is it a comment based on the fact that you believe that the overall macro economic environment is going to be very favourable in the next few quarters and that translates into very good operating conditions for capital market activities or is it because you think that even if that is not the case, you have some growth potential based on market share gained in certain product and certain geographies?

Bob Diamond

So the question, just to repeat in case some people did not pick it all up. Hopefully you did, is, we talked about our performance in the first quarter being sustainable. What is that based on? Is it based on something we see in the economy? Is it based on something in our business? I will say a few words and then hand over to Jerry.

To reiterate, we did say it would be sustainable and we said, if you look at the first quarter, you should probably assume that January was the only exceptional environment within those three months. So maybe you haircut a little bit going forward for part of January. And we always haircut a bit in the second half because you run into the normal August/December seasonal issues. And Chris said recently when we announced the BlackRock Global Investors transaction, the things we said about this business he reaffirmed in the RNS last week. We did think they would be sustainable. Chris has affirmed recently that those trends are continuing. We don't think it is about the economy. We don't think it is about the market environment. We think it is about consolidation. We think it is about a much stronger strategic position. We think it is about the Lehman acquisition. We think it is about the principles we talked about, about client interaction. And there are some areas of the market that have been robust. But there are some areas of the market that have still

been very quiet. So we see it is sustainable over a period of time, not sustainable just this year. And we are certainly not counting on a robust economic recovery. In fact our thinking is we are seeing signs of recovery, but it will be choppy and low growth.

Further answer - Jerry del Missier

Clearly we are still in the middle of a very challenging economic environment where credit markets, even though we have seen spreads come in significantly and that's obviously had an impact on bank spreads coming in significantly. But credit markets generally are challenging. Whether it's commercial property or just general corporate credit. So we understand that and certainly not immune from it. But what I would say is that if you look at the components. Yes there was a big swing back early in the year, in the credit markets from very, very depressed markets in Q4 and you are not likely to see that kind of a similar bounce back from these levels. But away from that, the increased volumes, the improved competitive landscape, volatility which coincidentally I think, even though it's come off significantly, by historical standards it is still very high and likely to remain high, because of that economic uncertainty. And so the margin environment I think remains very constructive. And with this improvement, since certainly the first quarter, you have seen this reopening of primary equity markets. You are likely to see an uptick in M&A activity. As industries other than financial services go through some of these very gut wrenching challenging times, that will lead to consolidation. And so we expect that this will be a good environment to drive top line revenue growth.

Bob Diamond

Can we go to London, looks like we have a couple more questions in London.

Question 7

Ian Smillie, RBS

Thanks again. Could you comment on the sustainability of the bid offer spreads which you mentioned in the presentation. Have they widened by as much as three times and how you build that into your revenue expectations, perhaps not just for this year, but looking forward please?

Answer

Sure. We think we are going to be operating in an environment where markets are trading on a risk adjusted basis or where risk premium remain a factor, for quite some time. We don't think that we are going back to where we were in the first half of 2007. Even if spreads do come in from where they were in the first quarter. Now that being said, we are not sitting still and acting complacent because we are in a positive margin environment. We are actively looking to grow market share, to take advantage of the fact that we have strong platforms in all of our flow businesses. Looking to take advantage of the fact that we are better positioned than many others in these businesses with a view to growing our share at the same time that we also expect to see a growing pie. So we would expect that margins may drift in slightly as volatility comes down, as conditions improve. But we are pretty confident in our

ability to continue to drive growth through market share acquisition in growing markets.

Bob Diamond

Can we take another question from London.

Further question – Ian Smillie

Thank you. The final question was, inside your 15-20% target RoE, what core Tier 1 ratio are you assuming?

Answer – Chris Lucas

Ian, we announced that following the BlackRock trade, our Core Tier 1 would be about 8% on a pro forma basis and it is in that sort of space.

Further question

You would encourage us to use that across division?

Answer – Chris Lucas

Yes.

Ian

Thank you.

Question 8

Brad Hans, Sandford Bernstein

Thank you. You are building out a global equity business. That is one of the keys for building a premier global investment bank. How important is prime brokerage to it? What we are seeing now in prime brokerage is disarray in the market place. Business models breaking down and market share is totally changing?

Answer – Jerry del Missier

Absolutely. We think that it does represent a significant area for growth. I think early analysis pointed to the fact that hedge fund assets were likely to shrink and therefore was prime brokerage a viable growth business? Our view is we have seen a consolidation in the hedge fund sector. Assets are certainly down. But what is going on within the market is a much, much more important factor and the traditional market share structure has been completely thrown up for grabs and we ultimately think that if there is a business that demonstrates the power of the universal banking model versus stand alone investment banking, it is prime services. It is that access to a more stable source of liquidity, the ability to be there for prime brokerage clients in challenging markets. To have that integrated offering across all the asset classes and to bring frankly a very diverse client base with which to be able to drive scale and cost economies as well. So I think if you look forward over the next three years, the leadership structure within this market will look radically

different from where it was five years ago. And we certainly intend to be one of the top players in that market.

Further answer – Bob Diamond

It is also interesting Brad, before we go on, to look at another example of you know where the Lehman acquisition completely transformed our competitive position. We were getting a lot of clients, a lot of assets last year during the flight to quality. But post the Lehman acquisition, we went from an incredibly deep client base in Europe, focused more on fixed income and credit, to now having an incredibly deep client base in the US through Lehman and an equity franchise. So we tended to be overweight in Europe and overweight in non equity hedge funds. And now we have a much better weight in US and a much better weight in equity. And to reiterate Jerry's point, great example of the integrated universal banking model. We have seen a real flight of assets into our organisation.

JP. And then after this question I will come back to London

Question 9

John-Paul Crutchley, UBS

Two questions if I can. Firstly can you comment on the workout of the legacy assets portfolio, how that is progressing and how you see that. Do you see more ability and liquidity in the market to actually exit those positions or do you look at the long-term in terms of capital release? And secondly there has been diverse reports of the Lehman bankruptcy liquidator making some speculation about whether they can claim back or whether the transaction was done under value. I just wonder if you could comment on your view on that?

Bob Diamond

Clearly we can't say anything new but we have given you a lot of data as recently as the end of the first quarter. So happy to have Rich touch on both of those to the extent we can. We certainly can't talk about anything new.

Answer – Rich Ricci

Certainly, the first quarter we have moved out about £5 billion of assets in the first part of the year. Certainly the markets at the beginning of the year helped that. We continued to move certain assets, markets have softened a little for some of those, but it is still our strategy to continue to try to work those down, either structurally or through outright sales as quickly as we can.

On the Lehman integration, it is a terrific story. I mean that is what administrators do. They are looking to represent the stakeholders in the old Lehman Brothers and we are very comfortable with our position both legally and from a business perspective. And it is just one of those things you have to deal with. But not overly concerned over those issues.

Further answer – Bob Diamond

Certainly in the second quarter, I think to reiterate what Rich said, not talking about our business, but just talking about the industry as a whole. There has been continued softness in commercial real estate. And I think it is a positive sign, but it is a bit of a head wind, is the own credit spreads for most of the banks have been narrowing, and so those are probably the two head winds we are working against, against the strong top line revenue.

Question 10

Robert Law, Nomura

Good afternoon everybody. I have got a few questions if I may. Firstly, as Chris and John said could I confirm that you still want to bring down the leverage of the Barclays Group from the positions post the BGI sale? Secondly can I ask you to quantify what you think the capital requirements in BarCap may be with increased regulation? So the Turner reports talked about travelling capital requirements. Within BarCap I think you had risk weighted assets of £230 billion at the end of last year and I was wondering how you think that might move as a result of that? And the final question is on the cost of funding within BarCap. How do you charge BarCap for funding in relation to the Group? And how has that moved since the onset of the credit crunch?

Bob Diamond

Thank you Robert, three questions around the aspirations of the Group in terms of leverage ratios, try and quantify the capital requirements for Barclays Capital and how are we managing the cost of funding within BarCap and how is the charging done? Rich if you want to take those and then Chris may want to make a few comments afterwards.

Answer – Rich Ricci

I will leave the third one to Chris. The first two. I think the question was, is it still our intention to reduce the leverage of the Barclays Group post the sale of BGI? The answer is yes. The second one was around the risk weighted assets in Barclays Capital. As we said, as I said in my presentation, we would expect that number to decrease by the end of June 2008 versus the end of the year. Roughly within the same range, but I think we will see a decrease. And the third is the funding question for the Group. Chris do you want to answer that one?

Further answer – Chris

In terms of the capital as well. Bear in mind Robert that when we look at the capital against risk weighted assets, we look at a point in time at the end of last year and there was a very big FX impact on that. Notwithstanding that, we expect it to come down because of the activities that the team have been talking about. In terms of the funding of the Group. The funding of BarCap is through the BarCap money desks who also do the funding for the rest of the Group but via Group Treasury. In terms of the cost, is there an additional cost? Yes there is, that is picked up at market rate

by the funding desk and allocated to the users of that funding which were the other parts of the business. The result that you see therefore for BarCap has included within it the complete funding cost attributable to BarCap.

Question 11

Michael Helsby, Morgan Stanley

Hi thank you, good morning everyone. I have got two questions. Firstly on slide 16, you went through the revenue opportunity that you saw from the incremental businesses that have come on board. I was just wondering for a point of detail. Is this relative to the full year 2008 and what time period would you expect to achieve those revenues over? And also, I appreciate from your slides and discussions we have had before that the top three players within your more traditional markets of FICC are also claiming a lot more of market share and therefore if you could give us some colour on what revenue opportunity you would see from market share gains over the same time period that you are referring to within those more traditional businesses? And I have got just a follow up question on capital.

Answer- Jerry del Missier

So the answer to your first question Michael. What we said was we expect to see an incremental £5 billion per annum of revenue from current run rates over the medium term. And that is as specific as we have been. In terms of the other FICC businesses, we still see significant opportunity in virtually every one of our businesses. We know that there are things that we can do better and whether it is foreign exchange where this year we were the only top five bank to grow market share and we have sort of looked forward and see opportunities to continue to try to grow revenues and share at certainly an above trend rate. Frankly we think we can double from where we are today through to fixed income, whether it is municipals or high yield, we do see opportunities to continue to take share in a consolidating market. Or the commodities example we talked about earlier. So we are anything but complacent in those businesses as well and would expect to see real opportunities to drive growth from that core engine.

Bob Diamond

You have got a last question Michael on capital?

Further question – Michael Helsby

Yes. I think there has been a lot of focus on the 15-20% return quite understandably and I think it is very difficult because there is so much noise and there is going to be so much change from a regulatory perspective in terms of measuring RWA's. Perhaps the better way to look at it is to think about it in leverage ratios on a US GAAP basis. I wonder if you could give us a reasonable range of what leverage you see BarCap running with which would be consistent with hitting that 15-20% return?

Bob Diamond

Well Chris you have made some broad comments in terms of the Group leverage and certainly that would impact in BarCap because on a GAAP basis we are about

two thirds of the balance sheet. Maybe you could reiterate what you said in the past. You have given some broad guidance, but no detail.

Answer – Chris Lucas

We have given broad guidance because there is just so much moving around at the moment but in terms of what we have said for the Group. The Group on a pro forma basis at the end of the year was 24 times. We want to see that working down, we are conscious of the US regulatory minimum of 20 times. So directionally we want to get closer to 20 than 24 we are at, that is where we are heading. The timing of that and the different components of that, we are working on and different parts of the Group are operating to get us to within that overall Group target. We don't feel at the moment that it is appropriate to set ourselves a target beyond the direction we have given at the moment.

Bob Diamond

I think Michael that actually gets you pretty close to the kind of answer you are looking for. We do focus on the GAAP and the US GAAP balance sheet. However we continue to work down our derivatives gross ups, notwithstanding that the focus should be on the US GAAP balance sheet. And I think if you take what Chris said in terms of the direction of travel, that's certainly part of our thinking in the 15-20%. And as I said, we get it. We are going to be operating going forward with more capital, with less leverage, with more liquidity in a more rigorous and globally connected regulatory environment. A lot of details on all these things will continue to evolve over the next couple of years, but that is clearly our starting point when we talk about 15-20%.

Michael Helsby

Thanks very much.

Question 12

Two more questions. The first, you mention in your presentation that it was a great time to build an organisation given the level of people who are available to join you from the competition. What does it mean in terms of cost and guarantees that you have to give to hire these people? And should we expect because of those great conditions, the compensation ratio of BarCap today to be at the lower range of the historical norm in the industry, ie I am thinking closer to 45% or 40% than the 50-55% that it has been at some stage? That is the first question. The second question is we have seen a pretty strong rally in credit indices and tightening of spreads since the beginning of the year. Have you taken advantage of this by putting in place some hedges against your loan portfolio in order to mitigate the possibility of rising impairments in the next 12-18 months on the basis that the economy should remain pretty weak?

Answer – Bob Diamond

Both very good questions. Let me take a crack at the first and ask Rich and Jerry if they want to add anything to it. And then Jerry can talk about how we manage the loan portfolio, which is the second question.

I think one of the reasons to go through the 12 year journey we have been on is there is no other Barclays Capital. There has never been an investment bank in the last 25 years that has grown organically to the extent that we have. So we are used to this. In fact I would say our hiring this year, Jerry correct me if I am wrong, but it is below the levels of almost every year other than 2003. So I know we are getting a lot of attention on it. I think because of the Lehman acquisition because of the focus in Europe and because of the focus in completing the build-out of our equity and advisory platforms. But our hiring is actually at lower levels than it has been since 2003. It is just relative to maybe other institutions it seems somewhat higher. So we are comfortable that we can manage that. And I think, you know to quote Jerry's comments, both internally and externally, if people are thinking about the next year or two, we are probably the wrong organisation to join. If people want to have a career and are looking at 3,5,7,9 year opportunities we probably are the right organisation to join.

In terms of the loan business, do you want to pick up there?

Further answer - Jerry del Missier

Yes. We actively hedge our exposures in the loan portfolio, have done so for a long time. And we would certainly be monitoring what is going on in the indexes as well as some of the more liquid names with a view to ensuring that we have the right risk profile for the environment that we believe that we are in.

Question 13**Mike Trippitt, Oriel Securities**

Bob good morning. It is a slightly bigger picture question. Perhaps goes back to your introduction. But when you are now looking ahead with the investment you have made and you are looking at the revenue potential for 2011, is your assumption now that given the turmoil the industry has been through, that it is at a sort of steady state going forward or do you expect to see more consolidation that the top five become stronger either organically or inorganically? And would you expect to participate in that?

Answer – Bob Diamond

Well the question is on consolidation. We certainly don't see it over and it is striking. I think, you know from an industry where 3-5 years ago we were at 20-25% consolidation levels for the top five players, at 40% overall and almost 50% for FICC, it is a far more consolidated industry. But I think the view of the three people sitting here is that it is not over. It will continue and our most likely participation in that is going to be organic. We made a clear decision when we did the Lehman acquisition that we wanted to, the US broker dealer was the part that we really, really wanted and collectively we made a decision where we could have done some big team

moves or we could have done some acquisitions to fill that out in Europe and Asia. We made a decision based on the environment, based on our track record, based on it being a talent rich environment to build Europe and Asia organically and that is the decision we have made. I have no credibility to say we will never do anything strategic any more since I have been saying that for years and we did do Lehman Brothers last year. So I will have to say I would never say never, but we certainly, and there may be some small things that come up here and there, but our intention is to continue to fill out these platforms organically.

Question 14

Derek Chambers, Standard and Poors Equity Research

Can I ask three questions and try and get them all out before getting cut off. First one is just a detail point, you mention that the Americas is now about as big as Europe for your revenues as shown in slide 13. You have another slide, slide 26 which is showing some subset of volumes where you have got US at 8, America 34% to Europe 45% of revenues. I was wondering if you could explain. The first question is, is there a product or timing difference to make that different? The second question is on private equity which used to be quite a big element of BarCap and also an element of Lehman, you don't seem to have mentioned that. I was just wondering if private equity has a role for you at the moment? And then the third question just going back to what you were saying about the rationale for disposing of BGI. You were mentioning that your view of how US legislation in particular, the ERISA and the 40 Act. Has that changed your view on how that would operate? I am slightly puzzled because obviously those have been in place for several decades and I wondered why, what made you change your view of the impact of those on the combined business?

Bob Diamond

All good questions. Let me ask Jerry to start on how we see the America/Europe split in terms of our businesses. I think Rich can say a few words on our view of private equity both in BarCap in general and also relative to the Lehman acquisition. And then I will pick up on your question on BGI and consolidation in investment management.

Answer – Jerry del Missier del Missier

The specific answer to your question is that the two graphs are looking at two different sets of data. One is the second page, 26 I think it's volumes and revenue I think perhaps. The other one is certainly client side production. So it is looking at the business from the client perspective rather than the product area. And yes it is balanced very nicely actually between Europe and the US. To put that in perspective, up until the first quarter of this year, we used to have client businesses that were roughly the same size. When you looked at Continental Europe, the UK and the US and what has happened now with this rescaling in the US is that the US is about the same size as UK and continental Europe combined.

Further answer - Rich Ricci

I am not sure I heard the question on private equity. I was struggling to hear. But if it was about our views on private equity generally?

Bob Diamond

I think it was because the Lehman acquisition and Lehman had a position in private equity, what is our view there?

Answer - Rich Ricci

Right. I think the Captive and Private Equity businesses are undergoing some of the same challenges that we see in the captive asset management space. You know that is, are banks the best owners for these businesses? There are a lot of capital requirements and as a result I think that a lot of banks and captive PE houses are evaluating the optimal nature of models going forward. And you know we, as has been published in the newspapers as well, are also taking a look at our own business and considering what options we might want to pursue.

Further answer - Bob Diamond

The bottom line is that holding private equity stakes on a balance sheet of an investment bank in the environment we are in today, does not make a lot of sense relative to other opportunities we have. So we have to be very, very strategic I think we would say, for it to make sense. So I do think that is a switch industry wide actually, not just here.

On BGI, I am not sure I got all the questions, but let me take a crack and see if there is a follow on. I mean our analysis was pretty clear around two things in the decision to do the deal with BlackRock. Independence is becoming increasing the ownership model of choice in large institutional and large retail asset management firms. And that is a switch. And the data is pretty compelling. If you look over the last decade and you look at the top 50 managers of institutional assets. When the decade began about 20-25% of those assets were managed by independents versus financial institutions. Today it is about 50/50 before the BGI deal and BGI is the largest manager of institutional assets in the world. And one of the reasons for that is the related party issues. And it is increasingly difficult for a financial institution to have a top tier position in both investment banking and in investment management. John and I recognise that recently. Not recently I shouldn't say that. Over the last couple of years we recognise that eventually in iShares, it would have to be owned by an independent because it is all distributed through intermediaries. Through Morgan Stanley, through Goldman Sachs, through Merrill Lynch. And we knew in iShares that eventually they weren't going to distribute product for a competitor like Barclays. So the timing of that was accelerated around our October decisions. But the decision on the institutional side of BGI was a tougher one. But what we are seeing out there became even more clear with the Lehman acquisition. Prior to Lehman, as you heard today, BarCap had a relatively small presence in the US and a very small presence in equities and it was really around derivatives, BGI is the number one manager of institutional equities in the US. Post Lehman where we have real scale in the US and we have a real equity business, it is not a nuisance, it is

a real problem both for BGI and for BarCap. Lehman Brothers equity business was one of the top counter parties of BGI. Once we acquired Lehman brothers we could not do business with a lot of their funds because of the 40 Act and because of ERISA issues. With the 19.9% ownership and the 4.9% common equity ownership with BlackRock, we have almost 20% of the upside of the BGI BlackRock combination and of the synergies. And we get hundreds of millions of dollars in business opportunity between BlackRock and BarCap and that is the fundamental change that took place. So once we recognised that we could get, you know a bull market multiple. In other words the appropriate multiple for our business in BGI, we could put it in a better strategic positioning with BlackRock. We could resolve the related party issues and we had the upside of the synergy going forward. This was a tremendous transaction. But a lot of it came back to BarCap's acquisition of Lehman putting us in a much different position with a large institutional manager of equity assets in the US. And lastly I would say, as much as I would love to believe it, I see this regulation spreading more around the world. I don't see it diminishing in the US. So I think we are ahead of maybe some of the decisions here, but it seems to be the right decision for Barclays.

Further answer - Rich Ricci

To the technical part of your question around what gives us confidence on the ERISA and 40 Act opportunities. As Bob said, the way we structure the transaction, immediately allows us to avail ourselves of the 40 Act opportunity and with only a 4.9% of voting shares in the BlackRock global investors combined entity, it gives us an opportunity to pursue exemptions for the ERISA side and BlackRock has technology that will help allow us to segregate funds and avail us to those opportunities as well. So it was a very considered structure that we deployed in order to give us some confidence and certainty around the 40 Act opportunities.

Bob Diamond

The last thing I would say on this subject, which I think is important for you looking forward, is Larry Fink and I spend the beginning of this week in San Francisco with the teams and you know the BGI teams are really excited. They see the potential for this combination. You have two firms that are extraordinarily complementary and a BlackRock organisation that is tremendous at marketing and can really add to the growth that we have had in iShares in our institutional business.

Question 15

Robert Law, Nomura

Hi, I just wanted to follow up on a couple of points I brought up earlier. I take your point that you plan to reduce the risk weighted assets in the first half of the year. But my question was really how you think the capital requirements in the BarCap division will move due to increased regulation which is highly likely to come in next year, if you have a feel for that? And secondly on the funding, how has the cost of funding gap between the Group and BarCap moved over the last couple of years since the credit crunch came in? What I am driving at here is I take your point that universal bank may well be advantaged in funding over stand alone firms, but there

is obviously a cost to that or should be I think to the division because you are benefiting from credit rating of the Barclays Group and the funding that the Barclays commercial banking business has in arriving at funds for the investment banking business. And I wonder how you quantify that and how it has moved over the last couple of years?

Bob Diamond

I will let Jerry take the second one because we would disagree with your starting position and ask both Robert Le Blanc and Chris Lucas to add if you have follow on. Let me try and tackle your first question first and Robert we can't be real specific, but we can be very directional. Tell me if I am answering the right question. I think it is on RWA growth going forward. If you could balance everything to today is a good starting point. And probably one of the things that, that doesn't put today as a perfect starting point is that all banks, including BarCap are going to continue to reduce legacy assets and you have seen the progress we have made, we will continue that, all banks will continue it. But assume we are at steady state, you shouldn't assume anything different to what we said before that we are going to build this business as pay-as-you-go and we are going to build it with profitability being risk adjusted. So if we are saying that revenues and profits and return on equity are in a 15-20% range, you can assume that capital growth will be below that. So thinking single digits, high single digits would probably be the right conclusion if we were getting to the 15-20% growth in other areas. But you shouldn't be thinking about much higher than that. Now again a lot of details I am trying to give you general guidance rather than any business plan, but in a general guidance, the same principles we have always had which are about growing our revenues, our PBT and our returns at a plane more steep than our capital and our risk, should still hold going forward.

Further question

I think, if you can hear me, the regulators are suggesting, certainly in the UK, at trebling the capital requirements for proprietary activity and I wonder what impact that will have on your requirements?

Answer – Bob Diamond

From a competitive position, we should be fine because as you know we have always focused at putting a risk in the client businesses and not having separate proprietary trading groups. I think there is more to find out. I don't want to be overly ambitious in my response, that competitively it is very good for us until we see. But if there is more capital held against large proprietary trading positions on a relative basis, we have to discount all of those things and. It should benefit us on a relative basis.

Further answer - Jerry del Missier

On the funding question, just to pick up on what Chris had said earlier. Barclays Capital has never had subsidised funding from the Group. We have always operated on the basis of market pricing we fund ourselves and we actively manage both our collateral to get cheap secured funding and we actively manage our unsecured. And obviously as the cost of credit has gone up since the start of the

credit crunch, the cost of funding for Barclays Capital has also gone up reflecting market movements. That's been in our numbers all along and the cost of that gets passed along to the individual businesses within Barclays Capital.

Further question

I was not necessarily implying that you have subsidised funding. What I was suggesting was that the funding for BarCap would be higher than the Group probably and I was trying to get you to quantify how that is and how that has moved over the last couple of years?

Answer – Bob Diamond

I think what I would say is if one of your things is do we feel we benefit by being part of a Barclays Group? Absolutely. There is no stand alone BarCap, we have never felt there was. And secondly, do we feel there is a competitive advantage in many areas including funding and liquidity by being part of a strong, integrated, universal bank? You bet.

Question 16

Brad Hans, Sandford Bernstein

The financial sponsor M&A at it's peak was 40% of total M&A in the United States? For Lehman it was a more important business for them than the corporate M&A. So the question I have is how important is the recovery of financial sponsor M&A to your goals in terms of achieving your M&A targets? And then the other question I have is, will it ever come back?

Bob Diamond

Let me ask Jerry to say a few words and we also have Skip McGee our Global head of Investment Banking, Skip if you want to say a few words after that will be fine.

Answer – Jerry del Missier

So to answer your last question first. You will see a recovery in sponsor activity. To think that that's part of the business that is gone forever I think is not an accurate reflection. I don't think we will get to the same levels that we were operating at as a market in the first half of 2007, but financial sponsors, private equity investors will remain a very active part of the global economy. Our objective here in building out our business is not just about expanding what the M&A business that Lehman had, but also reflecting the fact that Barclays had significant corporate relationships. And we do expect that this next wave of M&A activity will be likely driven by industry consolidation. At the end of the day the clients or the firms that will be doing the buying and selling are very likely clients of Barclays Capital or they were clients of Lehman Brothers. And so we don't necessarily see that the strength of the old M&A business within Lehman Brothers, does not necessarily put us in a strong position to take advantage of this trend of industry consolidation over the next few years.

Further answer – Skip McGee

I might just add a couple of comments. The market characterisation in terms of the Boards of the financial sponsors was accurate. I think the number that we looked at

was the overall percentage of the market that financial sponsors was 28% and Lehman was probably higher than that market percentage. Having said that, the financial sponsors going forward have continued to be an important Group. They control large groups of portfolio companies. I think for the equity business, there is the IPO business. Down the road there will be some M&A activity out of that group of companies. But it is a much lower percentage for us going forward, even though it was a high percentage, our corporate business was a much bigger piece of the M&A pie than the sponsors, even though the financial sponsors was an important business for us.

Bob Diamond

Well the last thing I would say because I think it is an area of a lot of discussion of how does the whole financial sponsors, private equity thing come back, is that in '05, '06, '07 the volumes were off the charts. But the spreads were very narrow and if you go back to what I said about the strategic relationships and the changing that is going to happen. I believe there will be far fewer deals. I think there will be far more strategic. I don't think private equity firms can count on banks, non banks, liquid markets to provide all the funding and all the leverage. So it is going to be more strategic. And they are going to be looking for partners that can do both the strategic advice as well as help them with the funding. So I think you will see a much higher quality business with far fewer deals would be my guess. And it is going to be much more strategic and much less if I can say it transaction or market based.

Bob Diamond

On behalf of John Varley and myself and Jerry and Rich, we can't thank you enough for the time you spent with us today and we look forward to talking to you more over the balance of the year. Thank you very, very much for coming.

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