BARCLAYS

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BARCLAYS CAPITAL FINANCIAL SERVICES CONFERENCE SPEECH
Robert E Diamond Jr

- Good afternoon

  Welcome

  and thank you all for joining us at the 2010 Barclays Capital Financial Services Conference

- I am pleased that my first investor presentation since last week's CEO succession announcement comes at our very own financial services conference

  I am honoured and motivated by the opportunity to lead this long established business, to take over from John Varley a close friend and fantastic leader and I'm motivated by the opportunities to lead such a dynamic business.

  As we outlined in last week's communications

  John Varley and I are very focused on delivering a smooth transition

  for all of our stakeholders – including our investors.

  And I can assure you

  that while there is a lot of work to do to execute this strategy, the strategy of Barclays will be unchanged.

I have been a member of the Barclays Board and the Executive Committee that developed our existing integrated universal banking strategy

And I strongly believe that this is the best model to serve our customers and clients, as well as optimising risk-adjusted returns for our shareholders

- Now, today, I'm going to begin by sharing some views on the environment in which we operate

  Covering the economic and market context,

  the direction of regulatory reform,

  as well as some high level trends we see playing out in the financial sector

- Then I'm going to focus in on Barclays specifically

  To address how we performed in the first half of 2010

  and what we are focused on going forward

- This conference comes at a pivotal time in the economic recovery

  The strong recovery we saw in the months leading up to May this year

  was at least partially driven by the enormous fiscal and monetary stimulus by governments around the world

  and just as a global recovery was taking hold

  the fiscal challenges hit,

  most dramatically in Southern Europe and Ireland

- The focus on record government budget deficits in many leading developed economies

  brought about the widespread recognition that government spending could not be a long-term driver of economic growth

  And at the same time

  uncertainty over the impact of regulatory reform

  fuelled concerns about the ability of banks to support private sector growth

- But we have now weathered the immediate impact of these issues without slipping back into recession

  The European Union stepped in to stabilize the ability of certain member nations to fund themselves

  And other developed countries – including the UK and the US

  have shown an increased focus on deficit reduction

- Meanwhile, we have gained more clarity around the direction of US financial reform

  and, while banks will need more time to consider the full implications of Basel III,

  yesterday's announcement was welcome in providing some clarity around the scale of capital increase

  and that implementation would be gradual

- So, while some of the momentum behind the recovery has been lost, we still see growth

  We have revised our US GDP forecast for the next few quarters down to 2.5-3%

  but it is important to note that the chances of a double dip recession are still remote

- As a result, markets are now focusing on the longer term prospects

  and renewed confidence depends on a credible case for sustainable economic growth in major markets

  Investors remain cautious,

  as many of the underlying long-term economic challenges remain

- The issue of government deficits must be dealt with responsibly

  The problem won't be solved through increasing taxes alone

  so it has to be managed by a reduction in public spending

  and the private sector must drive economic growth to mitigate the impact of a shrinking public sector

- Banks have a critical role to play in supporting the private sector in driving this growth

- And there is good reason to be optimistic that the private sector can pick up the growth mantle

  In this context of continued uncertainty and volatility

  the private sector has achieved significant deleveraging during the last couple of years

  while the rebuilding of inventories has stimulated the recovery

- Today, households and the corporate sector are in a much stronger position

    Household savings ratios have bounced back strongly from historic lows running up to and through the crisis

    This has been particularly significant in the US

    and even more so the UK

    where the savings rate actually turned negative during the crisis

- The combination of increased savings and a rebound in the market values of household financial assets – such as securities and real estate – drove a significant increase in household net worth in recent quarters

    In late 2008 – at the height of the crisis – aggregate US household net worth fell by as much as 9.5% quarter on quarter

    due predominantly to collapsing asset values

    Since the second quarter of 2009, US household net worth has increased steadily, and is now back to 2005 levels

- And we have seen a similar strengthening within corporates

  Take the S&P 500 for example,

  there has been a tremendous de-leveraging

  as banks and corporates have strengthened their balance sheets as we came through the crisis

  And looking just at the balance sheets of US non-financial corporates

  Cash and cash equivalents have increased over 80% since their lows at the end of December 2008

  So the corporate sector does have cash to invest

  Which is a positive sign that the private sector is positioned to drive the recovery as the public sector de-leverages

- So the potential for private sector lead growth is there

  Households are in better shape

  as are the balance sheets of many private institutions

- But there is still a key role for banks to play in working with clients to drive this growth

  For the private sector to drive economic growth it has to have access to the funding it needs

  It has to be able to manage its risks

  and it has to be able to carry out business across borders

  We need to evaluate regulatory reform through this lens

- And Barclays supports the vast majority of measures adopted or being considered in financial reform – in the US, the UK and Europe

  Strong banks benefit from strong regulation

  It's in everyone's interests that we have a safe and sound financial system

- It is critical, however, that proposed reform be carefully calibrated

  to ensure that the aggregate impact of the complete package of reform initiatives,

  across capital, liquidity and derivatives,

  as well as recovery and resolution planning,

  still supports the broader aim,

  to enable banks to support clients through lending and other services

  that help to foster sustainable economic growth

- There are 3 areas of proposed reform which I believe still need careful consideration

- The first is **capital**

  We all know we have to operate with more capital,

  Basel III is a big part of this

  and as I said earlier, yesterday’s announcement is helpful

  in terms of adding some clarity around the direction we are heading

  So we will continue to work closely with regulators to assess the aggregate impact of new capital requirements on

  our ability to lend,

  our ability to underwrite financing,

  our ability to make markets liquid and help clients transfer risk.

- We have to clearly recognize the cumulative impact of capital reform measures,

  we have to ensure an even playing field on a global basis,

  and we have to manage the timing of implementation carefully so as not to damage the economic recovery

- The second area is **derivatives**

  We support the increased transparency in derivatives markets

  so that regulators can understand the kinds of instruments being used

  and know where there is excessive concentration

  Barclays was one of the first to support electronic trading and clearing

  We have invested heavily in our platforms in this area,

  we encourage full transparency

  and we believe exchanges have a very important role to play in providing this.

- At the same time our clients, whether they're corporates, pension funds or governments,

  continue to need customised derivative products both for raising capital and managing their risks

  This can be done without compromising transparency and centralised clearing.

- The third area that's important for all of us concerns the **size and model of banks**

  the notion of breaking up banks that are "Too big to fail" is overly simplistic.

  As I've said, the world in which we operate is global

  and the reason banks are big is because our clients are larger, more international, and they require global services.

- There's no empirical evidence that big is bad - in fact, quite the opposite

  broad banks can have safer business models and risk management than small ones.

  140 small retail banks in the US collapsed last year, for example,

  with 118 additional institutions this year.

- By contrast the global universal banking model, which integrates retail, commercial and investment banking,

  is well diversified by business and by geography,

  well diversified by clients and by products,

  and it should carry less risk, by virtue of that diversification,

  if it's well run.

- What’s more, large universal banks tend to understand the risks they’re taking on better

    because they have broader deeper client relationships

    across a wider range of services.

    This gives them a better understanding of their clients and the issues they face

- But what’s most important of all in this debate is what’s required to stimulate economic growth.

    We need large global banks to support global clients in cross border trade

    in order to stimulate world trade and global growth

- And this is really why I am confident that we will ultimately get to the right place on these issues

    All of these issues come down to client need –

    and these clients represent the businesses that are going to drive the economic growth going forward

    Measures that unduly inhibit banks’ abilities to support clients as they invest in their businesses will be felt by clients

    and they will negatively impact economic recovery, employment and of course the tax base

- I firmly believe that political will is ultimately driven by the need to pragmatically address the challenges we all face

- Of course we understand and support the goals of a safer and sounder financial system

    and the challenges associated with resolution and recovery in the instance of a bank failure.

    That is why Barclays, for instance, is proactively participating in the UK FSA's pilot program on Recovery and Resolutions Plans

    as well as supporting efforts to develop a solution to the complicated question of contingent capital and 'bail-ins'

- So we are working closely with regulators and governments to develop solutions

    And we think the outstanding questions around capital levels for 'systemically important banks'

    are best addressed through a risk-based assessment,

    taking into account the quality of recovery and resolution plans,

    rather than through a simplistic, size-based approach

- Within the context of this debate, client-centric banks – like Barclays – will be well-positioned to cope with change driven by reform

    I take confidence in knowing that what is good for our clients, and for the broader economy, is good for Barclays

- So, while there will likely continue to be uncertainties around regulation

  I feel confident that legislation will ultimately be mindful of the challenges we all face

  And, as a strong, client-focused bank, Barclays is well positioned to succeed as this plays out

- But we are not complacent

  We are very aware that we are operating in a changing environment

  and we have identified a few key trends which will shape our industry going forward

- The first is a greater focus on returns and larger divergence between winners and losers over time

  Capital will be more scarce, and likely more expensive, than we've seen in that recent past as banks focus on generating adequate returns on higher levels of capital

  So clearly this presents a whole new challenge in how we serve our customers and clients who –

  whether they are large corporations or retail customers seeking a mortgage –

  will be increasingly focused on securing access to cost-effective capital

  and they will recognize that the best way to do this is to forge deep, long term relationships with their banks

So, banks that can successfully serve clients across their range of needs

and through more distribution channels

will be the winners,

and will be able to generate more revenues, and better returns, on capital committed to support clients

By contrast, there will be less client business available for narrowly focused or transactional banks

- The second trend is that, while the US remains the dominant global banking profit pool, emerging markets are growing faster and achieving scale

Asia, and China in particular, led us out of the recent recession

And clearly emerging markets, such as China, India, and Brazil, are going to be key drivers of global economic growth in years to come

Banking revenues follow economic activity

So it should be no surprise that the emerging markets banking revenue pool is expected to grow faster than developed markets

We shouldn't lose sight of the fact that the US will remain by far the largest and most accessible, single national market

But it is also critical to recognize the rapidly growing opportunities to serve clients in these fast growing economies

- The third trend is an increased focus on client business, with emphasis on delivering institutional quality solutions

As I highlighted earlier

We believe that regulatory change will ultimately favour business models that support client business

And this will drive an increased focus on client business across the industry

As other models are unable to generate adequate economic returns

In addition, we expect a continued increase in client demand for institutional quality global solutions

This demand is increasingly broad-based

It's not just multi-nationals anymore,

but also mid-size corporates,

who need fx services and trade financing

as well as governments that need to manage their risks – the volatility of oil prices for example

amidst an unpredictable market environment and even individual savers and investors that want global exposures across a range of asset classes

- So now let me cover how Barclays has performed in this environment

  and how we continue to position ourselves against these industry trends

- You will have seen Barclays interim results when they were released in early August

  So I'm not going to go through these in detail

  but I do want to highlight a few key points

- Overall, we've reported strong profit growth year on year

- Profit before tax was £3.9bn, up 44% on the first half of 2009

  resulting from a substantial improvement in impairment

  combined with resilient income growth

  Taking into account the impact of:

  own credit,

  gains on acquisitions and disposals,

  and gains on debt buy backs,

  adjusted profit before tax was £3 billion, an increase of 22%.

- Income grew 8% to £16.6 billion

  Adjusting for own credit and debt buybacks to give a sense of the underlying performance,

  income increased **5%** year on year

  and **7%** relative to the second half of 2009.

  I'm very pleased that we could drive growth across the portfolio despite the challenging environment in H1 2010

- Impairment of £3.1 billion improved by 32% year on year,

  or 12% compared to the second half of last year,

  which was in line with our guidance

  We saw overall improvements in both wholesale and retail impairments

  but, the main driver was the reduction in Barclays Capital

- Overall there was improvement in impairment across the rest of the businesses

  As we discussed at our H1 earnings announcement

  One benefit of the universal banking model is that impairment is diversified by product and by geography

  And in practice it also tends to be diversified in different phases across time periods

  We are maintaining our guidance for the full year of a 15-20% reduction in impairment relative to 2009

- Costs grew to £9.7 billion

  reflecting the continued build out of our business,

  Which I'll talk more about later

- The increased profit drove higher returns

  Return on equity was 9.8%,

  on tangible equity it was 12%,

  and return on risk weighted assets was 1.5%.

  and this remains a critical area of focus for us

- So given the context of our strong H1 results

  I want to address how we are continuing to build-out our franchise

  in line with the three objectives that we set out at the start of the financial crisis:

  Staying close to customers and clients

  Managing our risks

  Maintaining our strategic momentum

- Let me take Barclays Capital as an example

  to convey how our deep relationships with clients,

  our enhanced position in various market rankings,

  and receipt of major awards

  are all testaments to our ability to deliver a full range of best in class products and services to clients globally

- We’ve previously stated that our mission at Barclays Capital is “to be the premier global investment bank”

    Practically, we translate this to mean being top 3 in each of the areas in which we operate

    We’ve long had market leading positions in Global Debt and International Bonds issuances

    And here we’ve maintained our leadership, while also increasing our capabilities in US Debt

    We also entered the top 3 in FX a couple of years ago

    And we’ve maintained this leadership while increasing market share

- In M&A – a capability we added only a couple of years ago, and which we are building out globally

    we have significantly improved our position

    In the US, we were the #2 player in completed M&A in the first half of 2010

    And globally, where we are top five

- We’ve achieved this by working on some of the most notable transactions of the year:

  I will give you a few examples:

  We are the financial advisor to CenturyLink on its $22.4bn acquisition of Qwest Communications

  We are advising Resolution on its £2.75bn acquisition of AXA’s UK Life Business

  and we also have lead roles in all aspects of debt underwriting and equity raising

  We advised SAP on its $5.8bn acquisition of Sybase as well as leading the financing

- So we are well positioned as market comes back – and the signs are positive

  Historically, the M&A market has tracked GDP very closely

  So as the economy continues to improve, M&A will likely follow

  In addition, there’s a tremendous amount of pent-up demand,

  and cash,

  within companies that have been kept out of the M&A market for the last couple of years

And emerging markets are playing an increasingly important role in M&A activity

in line with their increasing proportion of global economic activity and growth

So, year-to-date, M&A is up 10% over the same period last year

but if you strip out the government intervention that contributed to last year's volumes

we're actually up on the order of 20% year-over-year, which is a meaningful increase

- I could tell a similar story relating to our momentum in Equity Capital markets

Where we will be a bookrunner on HCA's upcoming $4.6bn IPO

currently the largest IPO in the US backlog

and Resolution's £2bn rights issue in the UK

- And on the sales and trading side of the business – we are the Global Markets "Flow Monster"

We are an established player,

but also with the most momentum

Equities and Credit build-out is in line with our build-out of Fixed Income

In Equities for example, we had the highest growth in Q2 over Q1 among our peers,

a period when the majority of our peers saw income decrease

This is a reflection of our strong franchise in the US

and our enhanced global reach

as we have launched our businesses in Europe that are now completely operational,

Latin America (Mexico, Brazil),

and Asia (Japan Cash and Program Trading; Hong Kong Program Trading).

In London, where we launched our cash business at the end of last year

we are already the #3 market maker on the LSE.

We are #1 on the NYSE

We are in a terrific position as we further execute on our global build-out and strengthen our client franchise in Europe and Asia

Prime Services also continues to grow as we have focused on developing our franchise to be a top player in this market

- And we are applying the same customer focus to our retail operations

  where we are redefining the customer experience

  from transactional to customer oriented

  through investments in our distribution channels, our products and in technology.

- And already we are seeing clients respond to these investments

  In the UK, for example, Barclays Retail Banking has moved to the top of the major banking groups

  In the National Customer Satisfaction Index

- These achievements highlight the rapid progress we are making

  in deepening our relationships with customers

  and in bringing our full suite of products and services to our global client base

- Banking is about managing risk

  this has been lost sight of at times in the recent debates around the role of banks

  The economic growth I spoke of earlier is dependent on clients investing in their businesses

  and banks are a critical source of funding for this investment

  Both via own principal – bank lending

  as well as acting as an intermediary to the capital markets

- The easy way to reduce risk would be to simply reduce the client business we do

  clearly we are not doing that,

  in fact we are growing our client business

- So strong risk management where is absolutely our core focus

  This is about making the right decisions with our clients at the product level

  And it is also about having appropriate buffers at the Group level

- This slide highlights the dramatic improvement in Barclays financial position since the onset of the crisis

  Since 2007, our core tier one capital ratio has strengthened from 4.7% to 10%
  And our adjusted gross leverage has been reduced from the low 30s to 20x

  In the same period, we have increased our liquidity buffer over 8x from £19bn to £160bn

  And the various stress tests Barclays has been subject to also bear out the fact that the firm now has a far greater capacity to withstand a systemic shock

  In fact, in the recent stress tests by the Committee of European Banking Supervisors

  Barclays was ranked among the most robust of all major European Banks

- These measures – aimed at making Barclays more stable

  do of course impact our ability to generate returns

  In H1 we generated returns on equity of almost 10% - but this is below our cost of equity

  We expect to rectify this over the medium term by adjusting our business mix and product pricing

  as the regulatory and competitive market environments evolve

- And this is, of course, where regulation and market realities collide

  In the end,– governments, banks, customers and clients

  all want a sustainable funding environment

  and this requires that client-focused banks are able to generate positive returns for shareholders over the full cycle

  Again, we are confident that the process of responsible governments responding to economic and market realities will lead us to a workable solution

- The final objective we set was to maintain strategic momentum

  Looking back at the last few years

  We knew that the challenging market conditions could present transformational opportunities to significantly improve our strategic positioning.

  We acquired Lehman Brothers' North American businesses

  and successfully integrated the businesses with Barclays Capital and Barclays Wealth.

  We executed a strategic combination between BGI and BlackRock

  and maintained a strategic stake in what is now the world's largest asset manager

We also continued to enhance our global retail business with the acquisition of Standard Life Bank in the UK

- And our focus on maintaining strategic momentum is continuing, with a number of key initiatives across the businesses

designed to increase the future growth potential of Barclays for the medium term

while pushing hard to raise returns in the short term

- We are capitalising on the strong 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

The Barclays Wealth of five years from now will be contributing a much bigger profit to this Group and positioned among the top five globally

- 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

- In Global Retail Banking, we seek to deliver against our four critical objectives:

  Strong profit growth

  An improved loan-to-deposit ratio

  Depth, not breadth, by business line

  And the generation of net equity

- Finally, in Absa, we have a leading franchise in one of the fastest growing markets globally and the opportunity to be a leading player throughout Africa

- So to summarise,

- I am honoured by the Board asking me to succeed John as Chief Executive of Barclays from April next year

  and look forward to our working together in partnership through the transition

- John, Marcus, the Board and I are completely aligned on the Integrated Universal banking model being the right one for Barclays

  This model gives us a diversification of earnings that not only provides more stability,

  both for Barclays and for the system as a whole,

  but also positions us to serve our clients effectively,

  and to exploit synergies and deliver for our shareholders

- And, as I’ve said, we’re also completely aligned on the strategy

- The first half of 2010 saw us deliver strong profitability

  While at the same time enhancing our capital, liquidity and leverage positions

- Such that while we will of course continue to work with regulators across the globe to improve the stability of the financial system

  and through doing that support our clients in achieving their objectives

- we are confident that whatever the outcome we are well positioned for success

- I am delighted to be joined by the new co-CEOs of Barclays Capital, Rich Ricci and Jerry del Missier, and we would be delighted to take your questions