



Morgan Stanley European Financials Conference

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Bob Diamond, Chief Executive

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Thanks very much, it's a great pleasure to be here today and I'd like to thank our hosts Morgan Stanley for the opportunity to talk to you this morning

The conference theme this year - "Delivering sustainable risk adjusted growth" - captures the main objective of most Chief Executives. How it's achieved will differ depending on the business but for Barclays, what it entails is a laser focus on execution.

Slide: Our Strategy Remains Unchanged

We continue to believe the integrated universal banking model is the best for all our stakeholders.

It's the model that's enabled us to build a bank that's diversified by business, by geography, by customers and by funding sources; it's the model that's enabled us to offer the best solutions for our customers and clients; and it's the model that's enabled us to operate profitably throughout the crisis, offering security for customers and stability to the financial system.

As a result we have emerged from the crisis in a stronger position. We grew organically but we also took advantage of strategic opportunities: to add to our retail strength with Standard Life Bank in the UK, to acquire cards businesses in Europe, and to buy Lehman Brothers in the US.

We also took steps to strengthen our balance sheet and provide a greater level of resilience.

Since 2007 our Core Tier 1 ratio has more than doubled to 10.8% while Tier 1 capital has grown to 13.5%. At the same time we've reduced leverage from 33 to 20 and our liquidity has more than tripled to over £150 billion. We are today a safer and sounder institution.

Slide: Our Focus is on Execution

This means that my major focus now is on execution. Execution is the key to sustainable growth and we're concentrating on four key areas: Capital, Returns, Income growth, and Citizenship

I'll talk about each of these priorities in turn, starting with capital.

Slide: Solid Capital Base from which to Move Forward

I've already commented on the strength of our current capital position. This shows you how Basel III is likely to affect us. We're clearly not in a position to forecast our earnings but this gives consensus retained earnings over the next three years.

Despite the net impact of the Basel capital rules on risk weighted assets, our Core Tier 1 ratio climbs above 11% by the end of 2013.

The minimum Core Tier 1 capital required by Basel III is 7%. We've heard other US and European global banks say that they consider 7 or 8% to be sufficient. Our plans are based on what we think is a realistic assumption; that a 9% Core Tier 1 capital ratio will be sufficient to operate in the top tier of well capitalised banks.

This gives us extra capacity amounting to 140 billion pounds worth of risk weighted assets.

That capacity could allow us to invest in our business, increase our Core Tier 1 ratio if necessary, and distribute more to shareholders through dividends.

To give you a sense of scale, £140 billion of risk weighted assets is equivalent to one third of our current balance sheet or £180 billion of new lending to the small business sector.

We're also confident that whatever the outcome of further regulatory change – from the Independent Commission on Banking or the Financial Stability Board – we can manage accordingly because of our ability to generate capital.

We've generated £7.7 billion of equity since 2008 or £10.5 billion since 2005. In fact the increase in our Core Tier 1 ratio last year resulted almost entirely from our underlying profit performance.

Slide: Internal Focus on Return on Equity

Our second area of focus is returns.

You won't be surprised when I say that our current return on equity is unacceptable so we're working to improve this and to deliver sustainable returns above the cost of equity.

This chart shows how we've broken the business down into over 40 component parts to put a spotlight on each and every one, asking 3 questions:

Can the business be seen as top tier in the minds of customers and clients?

Does it earn returns comfortably above the cost of equity?

And are those returns sustainable?

In order to make an assessment, we've looked at: returns over the past 3 years, returns today, and returns expected over the next 3 years.

Our goal is simple – to eliminate or improve every business that doesn't meet our criteria so on the basis of this analysis, we're taking decisions about the future. Let me give you some examples.

Our credit market exposures are one of the biggest consumers of capital which is why we've exited almost half of them in the last three years. We've made a commitment to reduce them significantly again in 2011 and have just announced a further sale of commercial real estate loans, reducing risk weighted assets by over half a billion dollars.

Protium is a performing loan, a billion dollars has been repaid since December, so the principal has decreased 20% since the transaction took place but as capital charges are set to triple under Basel III we're in discussion with management to accelerate that reduction.

In Spain, we're clearly not earning returns that are acceptable but over the years we've had a business that's top tier with customers and clients so we're taking action to return it to profitability and sustainable returns.

That includes putting the right senior team in place; we've recently appointed a new CEO in Spain to drive the restructuring and we're in discussion about tightening our Spanish network and headcount. We're strengthening our domestic capital position, and we're focusing on more profitable segments.

By managing our business well in Western Europe we'll be in a better position to consider opportunities that will arise from industry consolidation over the next few years.

Other decisions we've made include closing our business in Indonesia which was subscale; exiting our retail business in Russia in order to focus on government entities, large corporates and multinationals; and closing Barclays Financial Planning in the UK where we'll now provide retail investment services through our online platform instead.

These were all difficult decisions to take - especially where we've exited from relatively new businesses - but they're good examples of the scrutiny we're applying and of our commitment to taking action.

For obvious reasons I can't talk about actions that haven't yet been finalised but we will continually challenge each business on its return profile and customer proposition in order to strengthen our performance and achieve a better balance across the group.

Of course another important way we can boost returns is by looking at our run rate of costs so we've put in place a cost program where we're reviewing our people, reducing discretionary spending, and looking at how we manage our functions to eliminate duplication.

The result will be an organisation that's more efficient, more responsive to customers and clients allows for clear resolution plans and runs at a lower cost.

We'll take at least a billion pounds off our run rate cost base by 2013 and we're already executing savings of £500 million this year.

Slide Returns: Target RoE 13%+, RoTE 15%+

The combination of: fixing or exiting businesses with poor returns, reducing costs, reverting to a more normalised impairment level and growing top line income, enables us to target a return on equity of 13% and a return on tangible equity of 15% by 2013 based on our planning assumption of a 9% Core Tier 1 capital position.

As the cost of equity comes down towards 10% returns will be comfortably above that cost.

Below Group level, our Retail businesses are on track to deliver a return on equity of 13 to 15% and a return on tangible equity of up to 20% by 2013, and we're comfortable that Investment Banking will continue to deliver returns of 15% or more, even after the full implementation of the Basel capital rules.

Our focus on capital and returns takes absolute priority but driving top line growth is integral to boosting returns and we see very clear opportunities to do this.

Let me give you some specific examples.

Slide: Income growth: clients and customers

In our cards business we have a leading market position, the benefits of scale, and strong technology we've taken advantage of our scale by acquiring card portfolios in Portugal, Italy and most recently the UK where we've just added over a million new accounts from Egg because we can run them more profitably than sub scale players and we can offer customers a better service.

That ability to leverage our scale is why we already generate a return on equity of 13%, a return on tangible equity of 19%, and a return on risk weighted assets of almost 2% in cards.

We're now driving top line growth in cards in two additional areas:

First we're a market leader in Wave and Pay cards for consumers because of our successful investment in new technology. This year we're launching the very first service in the UK allowing customers to use their mobile phones to make contactless payments. This marks the beginning of a transformation in the way people pay for goods on the high street.

Second, we're investing in our commercial cards business where returns are higher, utilised balances are lower, and the fee structure is more attractive.

As a result we expect double digit income growth in commercial cards.

We also see a strong opportunity in Wealth Management. This business was not top tier in the eyes of clients but we could see a way to build it into one that is, so we launched the Gamma plan last year.

We're already making very good progress income grew 18% in 2010 and we're expecting compound annual growth of more than 15% over the next 4 years.

You know we've been investing in our Equities and M&A Advisory Businesses in Europe and Asia following the acquisition of Lehman in the US and you also know these are high return businesses that don't use a lot of capital

That investment is already starting to pay back.

Last year we were Number 2 in M&A in the United States and in the top 5 globally. We advised on 8 of the top 20 global deals. And though it's still young, our equities business had a 10% share on the Tokyo Stock Exchange last year, was fourth on the London Stock Exchange, and was the leading market maker on the New York Stock Exchange.

As I said at our results, we commit to increase annual revenues from these business lines by £2 billion over the next 3 years.

One Africa

We also have opportunities in some of the fastest growing markets in the world I've just returned from a trip to Africa where I visited Botswana, Kenya, Zambia and South Africa and in all my meetings with government ministers, central banks, regulators and clients there was one consistent theme; everyone wanted to us to bring more of Barclay's capabilities to Africa in order to support economic growth.

We already have a strong position there. We're present in 11 countries across the continent and we're top 3 in 9 of those countries which gives us a unique footprint in the third fastest growing region in the world.

In much of Africa, where debit and credit cards are not an option because of lack of infrastructure, we leverage our technology to offer customers mobile phone banking instead enabling them to transfer funds electronically via their handsets.

We're also leveraging our product expertise from one market to another so for example we're selling Absa insurance products in Botswana.

But Africa is hungry for more than retail banking services. Everyone I spoke to asked about the help we could offer thousands of small companies in each market through our global investment banking capability: companies that need access to funding and that want to manage their risks – whether it's credit risk, currency risk or commodity risk.

As a global bank we're also able to help multinational corporates wanting to invest in Africa as well as facilitate trade flows around the world. Axis Bank in India is one of our clients. They came to us because they wanted to support an Indian company building power plants in Ghana but they don't have any operations in Africa and can't finance the project in local currency so we're providing finance locally while they underwrite the project.

The same is true for many Chinese companies. They want to access Africa directly without going through London or New York.

In other words both clients and governments in Africa want access to the power of the integrated universal bank in order to generate jobs and economic growth across the continent.

Africa represents an advantaged position for Barclays in a high growth market. It already generates about 15% of our revenues, and we're now aligning Absa more closely with Barclays Africa to execute a One Africa strategy capture the potential revenue synergies we see across the continent and enhance our competitive advantage there.

Asia

We're also growing our business in Asia: ten years ago 5% of the world's largest corporates were headquartered in Asia, in 5 years time that would be 35 to 40%.

Our approach, as you'd expect, is to focus on those areas where we can be top tier with clients and deliver good returns.

Areas such as High Net Worth, equities and advisory businesses where we're building on the strength of our platform in the US and Europe.

Our revenues in Asia have grown at a compound annual rate of more than 20% over the last four years and we expect this rate of growth to continue, with Asia doubling to become 10% of Group revenues over time.

I should add that our business in Japan has continued to operate effectively over the last few weeks. Our people have been there, on the ground, to support clients through a very difficult period and we believe that as everyone pulls together Japan will come through this crisis stronger than ever.

You've heard me talk about clients being at the center of our business.

We're confident that we can capitalise on the growth opportunities I've talked about because of the strength of our relationships evidenced by the feedback we receive and the awards we win: to give you a few examples, we've been named

Best mortgage lender in the UK;
Best Retail Bank and Mobile Banking in South Africa;
Best Private Bank in the UK;
and Top Global Quality Leader in the Greenwich Survey.

This survey is based on interviews with over 20,000 companies and institutional investors analysing the quality of investment and corporate banking services. We were ranked number one.

We are delivering for our clients and customers.

Slide: Citizenship

The fourth key area of focus is Citizenship and I think it's fair to say that as an industry we haven't done a good job of explaining what banks do to create jobs and foster economic growth, or what we do to support the communities in which we live and operate.

We know that private sector growth has to take the place of government deficits in the developed economies and banks have a vital contribution to make in this respect so let me give you some statistics on the most obvious way we contribute:

Barclays employs almost 150,000 people around the world, including 65,000 in the UK.

In 2010 we created 2000 new jobs, 80% of which were in the UK.

We created opportunities for about 3000 students on our internship program over the last 3 years and we've hired 4000 graduates in full time positions so Barclays makes a serious contribution to job creation.

But we also help other businesses to create jobs and grow: we have £500 billion of loans and advances extended to our customers around the world; new lending to UK business and households in 2010 amounted to £43 billion; and we helped over 100,000 people start up in business last year which is 10% more than in 2009.

These are critical contributions to economic growth.

As part of Project Merlin we've also committed to supporting a growth agenda with additional lending commitments and with contributions to the Business Growth Fund and the Big Society Bank

In addition we support the communities in which we live and work, by contributing £55 million a year to a wide range of local activities as well as to national and international programs such as Spaces for Sports.

But we don't just give money – we also give time and expertise.

60,000 of our people act as volunteers for causes that they believe in and we encourage them by giving them time to do this.

During the last 5 years we've supported over a million hours of voluntary activity and helped raise more than £75 million through matched funding.

We've contributed in ways like this for many years because we believe it's the right thing to do. I intend to bring more focus to our activities in this area to make sure their impact is as positive as possible.

Slide: Supporting Regulation

Before I close I'd like to talk briefly about pending changes in regulation.

We are supporters of change, for a very simple reason: we never want to see a rerun of the crisis in 2008 and we never want to be put in a position again where we are challenged by the failure of other banks.

No bank should ever have to be rescued by the tax payer and stronger regulation will help prevent that so we are frustrated when people say that we want to maintain the status quo.

Nothing could be further from the truth

We should take into account the fact that a lot of change has already taken place. We already have a system with more capital, less leverage and better liquidity progress has been made on central clearing systems of remuneration have changed and capital levels will strengthen further with the implementation of Basel III regulators have also learned from the crisis they're more proactive and more closely focused on critical areas of risk in prudential supervision

But to be successful there are some key tests that future proposals for reform must pass:

First, will they make a real difference in creating a safe and sound financial system where the tax payer is protected?

Second, will they help foster economic growth and job creation?

And third, will they result in a consistent approach internationally so that all banks can operate on a level playing field?

Given the progress that's already been made and given the work already underway on contingent capital and bail-ins, we believe the answer to all three questions is to establish orderly resolution plans and in particular, to create mechanisms that ensure customers still have access to essential banking services even if a bank fails.

For banks that are resolvable, judgement will need to be applied about the level of capital required so discussing ideal capital levels absent of these plans misses the point. We're at an advanced planning stage with the FSA developing resolution plans for Barclays and we continue to engage in discussion with the ICB, the FSB and the G20 to achieve the best outcome for all of our stakeholders.

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I want to conclude by leaving you with this thought.

The trends I've talked about this morning in relation to capital, returns, income growth and citizenship are important because in the new environment in which we're operating we'll see a divergence in the industry between those that are able to respond to them and those that are not. The gap between winners and losers will become greater than ever.

In this new environment we have the right model, we have the right strategy. But in the end it's about execution. Execution is our priority - execution is what will give us our edge.

The reason I'm excited about my new role is because by delivering on our promises, our promises on capital, our promises on returns, our promises on income growth and our promises on citizenship

Barclays will be one of those to benefit as the industry evolves.

Our focus – and my focus – is on achieving just that.