BARCLAYS

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Barclays Capital Financial Services Conference
Bob Diamond

Good afternoon and thank you for joining us today at the Barclays Capital Financial Services Conference, I'm delighted to see so many of you here.

There are three topics I'm going to cover today.

I've chosen them because I recognise that our stock trades at a significant discount to our tangible equity and I do not believe that that is justified so I want to directly address the concerns I know people have: concerns that have been heightened by the fact that we are operating in an environment that lacks certainty, an environment that lacks confidence.

This includes lack of certainty about regulation, especially in the UK, where the Independent Commission on Banking published their final report yesterday; lack of confidence about the Eurozone and our exposures there, and concerns as to whether we will be able to hit our targeted return on equity of 13% by 2013 in the face of new regulation, challenging market conditions, and slowing economic growth.

While market conditions are challenging and I understand the concerns people have, we are confident about our position at Barclays.

Let me take this opportunity to explain why, starting with regulation.

The Independent Commission on Banking published its final report yesterday after 15 months of careful deliberation.

This publication represents a welcome step towards the greater clarity that banks need to be able to operate with confidence.

I know the major question you have is what the cost of this will be for Barclays but as you will understand, there is still a lot of work to be done here.

The report calls for changes in UK law, changes in international law, and coordination with international regulation.

There are many steps yet to be taken, and until we know the full details, it is difficult to quantify the impact.

So let me focus instead on the key provisions of the report.

First, we welcome the ICB's recognition that the benefits of diversification in banking models should be retained, both for the good of clients and for the internal synergies that exist.

And as the Chancellor said, the goal has to be for Britain to be the home of successful international banks.

It's important that our shareholders will continue to be able to access both retail and institutional earnings.

We also welcome the fact that the report's recommendations leave flexibility to determine the final details of implementation.

This allows for the definition of the ring fence to be aligned with the shape of our retail and corporate banking businesses and with the work we have already done on recovery and resolution plans.

As we've already said, ring fencing is not our first choice but we believe we can make it work.

Looking at the capital requirements, for example, the requirement for a Core Tier 1 ratio of 10% in the ring-fenced entity was as expected.

As you know, at the half year Barclays Core Tier 1 ratio was 11%.

The report also calls for primary loss absorbing capital of 17 to 20%.

Currently our Tier 1 and Tier 2 ratios amounts to 17%, and our total potential loss absorbing capital is more than double that.

The timeline for implementation, which runs until 2019, is critical for banks to accommodate the changes while continuing to support the economy.

Barclays has a very strong track record of adapting its business model to deliver for its shareholders and this timeline gives us confidence in being able to continue to do just that.

Recall that in 2008 Barclays signalled we would get ahead of regulatory change by ensuring that we have a strong capital position.

Our Core Tier 1 ratio has doubled since then to 11% our Tier 1 capital has grown to 13.5% and our total capital, including Tier 2, now stands at 17%.

One reason for this is our own ability to generate capital.

Since 2008 we've generated £8.8 billion of equity and virtually the entire increase in our Core Tier 1 ratio in the last 18 months has resulted from our underlying profit performance.

We've also reduced leverage to 20 times and our surplus liquidity has increased to £145 billion.

£85 billion of that pool is cash held with central banks, £25bn is in UK government bonds, and a further £24bn is in other government bonds including Switzerland, the US, and Japan.

Despite market volatility our funding position is very strong.

We've raised £54 billion in term liabilities over the past 18 months, and we priced a 2 billion Euro 3 year covered bond at 52 basis points over mid swaps on August 31st so we're accessing funding, cost effectively, even though the markets have tightened.

Our liquidity stress tests show that even in the worst case scenario, where the wholesale markets close completely, we have a significant buffer period before taking any management action.

In addition, our surplus liquidity pool covers an entire year of wholesale maturities.

In short, Barclays today continues to operate with rock solid capital and rock solid liquidity.

Moving on to the Eurozone, we recognize there are concerns about Greece, Italy, Spain, Portugal and Ireland so we have given a detailed breakdown of our assets in these markets in terms of the businesses they relate to, the nature of the risk, and how we manage that risk.

To summarise, £44 billion of our exposure – the majority - relates to retail banking activities: almost all mortgages, mainly on first homes with low Loan to Value ratios, in Spain Italy and Portugal.

Our Corporate Assets total about £14 billion.

We took substantial provisions up front on our corporate portfolio, our impairment charges are now declining and we expect that to continue.

Our sovereign exposure of £11.6 billion is all fair valued.

70% is held to hedge interest rate risk relating to our local businesses: over half has a remaining life of under 2 years and is being replaced by swaps.

30% of our sovereign exposure is in our trading and derivative portfolio resulting from our role as a leading primary dealer, market maker and liquidity provider to our clients.

The remaining assets – less than £7 billion- relate to financial institutions and normal interbank activity.

A significant part of this is to strong financial institutions with administrative centers in Ireland, but with little Irish exposure.

Keep in mind that while it is booked in Ireland, the real risk is to the strong parent company.

You'll notice that I haven't mentioned Greece - our exposure there is minimal.

In summary, our exposures in these markets are not speculative.

They are largely in retail banking, largely secured, and we're managing our risks carefully, so we're confident about the assets that we own and the values at which they're held.

Of course confidence will not be restored until the EU sovereign debt issue is resolved.

This is the most critical issue weighing on the markets right now.

The opportunity for Europe is clear - a big, deep, liquid sovereign debt market with all the safety and security characteristics of the US Treasury market, underpinning a European corporate funding market and driving economic growth.

The way to achieve this is through greater fiscal integration.

I believe the debate will increasingly address how and when we get there, not if we get there.

As the uncertainty continues, we remain focused on 4 key priorities at Barclays:

Capital strength, returns, income growth and citizenship.

Each of these is critical to our ability to succeed in this environment and we have a strong experienced management team committed to executing on each and every one.

I've talked about our strong capital position so I want to move on now to returns.

We set a target in February to generate a Return on Equity of 13% by 2013, and with greater certainty, now that the ICB have published their report, we reiterate that target.

Though we're just 8 months into our journey and still have a long way to go there are signs of good progress in our underlying numbers.

Our Adjusted Return on Equity rose to 9.1% in the first half from just below 7%.

Our return on tangible equity grew to just under 11%.

This was driven by a 24% profit growth in the first half, excluding PPI and own credit.

Our three world class businesses – Retail and Business Banking in the UK, Barclaycard and Barclays Capital – are businesses that operate in the very top tier of their industry, businesses that have scale, technology, brand and customer depth and breadth.

All three delivered an adjusted return on equity above 13% in the first half this year.

As you know, we apply a Core Tier 1 ratio of 10% to all our businesses.

UK Retail Banking reported a Return on Equity of 15%, at Barclaycard it was 16%, and Barclays Capital generated a return of 15%, even in a soft trading environment.

Together these three businesses account for two thirds of our risk weighted assets, two thirds of our capital.

In addition we have two businesses that have the potential to become top tier, Wealth and Africa.

I'll talk about these later in relation to income growth.

Both show continued progress.

Then there are two businesses where we recognise we have serious work to do:

Corporate Banking and Retail and Business Banking in continental Europe.

Barclays Corporate returned to profitability in the first half of this year.

This is a very significant improvement on the negative return last year, though clearly we still have much further to go.

Europe Retail and Business Banking was loss-making due to the costs of restructuring that business.

In particular, we are reducing headcount and the size of our branch network in Spain.

The business now has strong leadership and is in much better shape for this environment.

It will return to profitability in the second half and deliver positive returns going forward.

Disciplined cost management is also critical to delivering returns and will give us flexibility to navigate the incredibly challenging market conditions.

We held costs flat in the first half and expect to deliver a reduction of £250 million for the full year, net of restructuring.

We believe we will comfortably exceed our savings target for 2013 of a billion pounds because we are running Barclays today in a more integrated and efficient way.

Our third execution priority, income growth, is also an important part of delivering returns and though the environment has been challenging, those areas where we have been investing are beginning to deliver.

At Barclays Wealth we are in the second year of a five year investment program.

In 2010 – the first year - revenues grew 18%.

This year, first half income grew 12 % and we're continuing to operate ahead of plan.

We launched One Africa at the beginning of July and Maria Ramos is now CEO of the Africa region.

Total income was up 7.5% when we combine revenues from all of our activities across Africa.

As you know, we have top tier businesses in many African markets, and our One Africa strategy will deliver the entire capabilities of Barclays in an integrated way across the continent.

Within Barclays Capital, while overall income was down, there was good growth in the businesses that we have targeted to build out globally.

Equities & Prime Services grew 5%, Investment Banking was up 11%, and market share in both is growing.

We are also pleased with the strong performance in UK Retail and Business Banking where income grew 4% in the first half as we continued to upgrade the customer experience by investing in our branches, our technology and our people.

Our fourth priority is citizenship and for me this embraces several important elements: it's about the way we behave, in particular the way we treat customers and clients, it's about the way we help our customers and clients create jobs and economic growth, and it's about the way we support the communities in which we work.

Operating with integrity lies at the very heart of our focus on Citizenship.

We know that trust in this industry has been damaged in recent years.

We know we do not always get things right for every customer.

When we get them wrong, we apologize and we put them right.

That is our commitment.

In a challenging environment, we have continued to do all we can to support job creation and business growth by standing by our clients.

In the first half, Barclays Capital was the leading book runner for Debt Capital Markets globally so at a time when we see a lack of certainty and confidence we helped clients raise more financing in public debt markets around the world than any other bank.

Here in the US, Barclays Capital is a leader in taking companies public enabling them to raise the funds they need to invest in their businesses and create jobs.

And in the UK we held over 75,000 meetings with our business clients in the first 6 months this year, we supported the start-up of 50,000 new businesses, and we approved a new loan to a UK SME every 4 minutes.

We also continue to help the communities in which we live and work.

In the first half, we supported more than 45,000 of our colleagues at Barclays as they worked for causes they believe in, by giving them time and matching their fundraising efforts.

We care about being good citizens not just because it is the right thing to do but because trust underpins our relationships with customers and clients, trust underpins our reputation and brand, trust underpins the delivery of sustainable returns for shareholders.

We recognize that markets have been greatly unnerved by fears about the future of the Eurozone, and by the prospect of low economic growth.

Against that background of uncertainty and lack of confidence, we are very clear about our priorities.

We have strengthened our capital position, we are investing selectively for growth, we are focused on returns.

Our three world class businesses, which together account for two thirds of our capital, delivered a return on equity of 15% or more in the first half of this year; we're investing in our two businesses with potential to become top tier and they are generating strong income growth; and we have made progress with those businesses that need work.

In short, we are on track to deliver a Return on Equity of 13% by 2013.

In recent times, the valuations of large well capitalised UK headquartered banks have been discounted due to uncertainty.

Yet the UK is ahead of many others in addressing the challenge of reducing public debt.

It's working hard on passing the mantle of growth from the public to the private sector and it does not face the challenges that we see in Europe.

The UK has the advantage of its own currency and of fiscal autonomy.

With this week's report from the ICB, we are close to resolving regulatory uncertainty in the UK.

And in times of stress, rock solid capital, liquidity and funding is a strong differentiator.

It may now be time to look at well capitalised, UK headquartered banks in a new light.

Thank you very much - I'm happy to take your questions.