

2010 Full Year Results

15 February 2011

Bob Diamond

Thanks Chris

As you all know, I've been at Barclays now for 15 years.

John and I have been partners on the Executive Committee since 1997 and he has been my boss for the past 7 years.

I've also been President of the Group and on the main board of Barclays for the past 5 years and during that time have been part of all our decision making so it should come as no surprise to you that our strategy remains unchanged.

Our strategy remains unchanged

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

It's the model that's enabled us to build a bank that's diversified and balanced by geography and business line, 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 as well as stability to the financial system as a whole.

As a result we've emerged from the crisis in a stronger position than we went into it:

We grew organically as we did more business with more customers in more countries,

and we also took advantage of opportunities to add to our retail strength with Standard Life Bank here in the UK, acquire cards businesses in Europe, and of course buy Lehman Brothers in the US.

What all this means is that my focus now is on executing our strategy

and by that I mean very simply delivering on our promises to customers and clients, our promises to our owners, our promises to our employees and the communities we serve, and of course to regulators and governments, including the promises we made for Project Merlin.

Our focus is on Execution

In particular we're focussed on delivering our promises in four key areas:

Capital

Returns

Income growth

and Citizenship - in other words making a contribution to the economy and to every community in which we live and work.

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

Capital strength

We took a decision early on to get well ahead of regulatory demands and we did that because we recognised the importance of being able to create stability at a time of extreme uncertainty.

As a result, 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.

Of course the key now is how we're going to operate going forward.

Despite some remaining uncertainties, we now have a much greater understanding of Basel III and can project what we think the likely impact will be over the next 3 years.

Solid capital base from which to move forward

We're not in a position to forecast our earnings but this shows consensus retained earnings over the next three years and 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 of risk weighted assets.

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

To give you a sense of the magnitude, £140 billion of risk weighted assets is equivalent to one third of our current balance sheet or another way to look at this £180 billion of new lending to the small business sector for example.

Of course we don't yet know the outcome of the Independent Commission on Banking in the UK or of the Financial Stability Board's decisions on systemically important Financial Institutions but we're confident that whatever those outcomes, we'll be able to manage our capital accordingly.

Track record of capital generation

One reason for that confidence is our own ability to generate capital.

You can see from this graph that we've generated £7.7 billion of equity since 2008. Going back to 2005 we've generated £10.5 billion.

That's given us flexibility to both pay dividends and strengthen our Core Tier 1 capital position;

You heard from Chris earlier that the increase in our Core Tier 1 ratio last year resulted from our underlying profit performance.

Net generation of equity is a key metric that we use to manage the business.

In recent years our capital position has undergone stress tests in the UK, stress tests in Europe, as well as our own internal testing – which we take very seriously and carry out on a weekly basis.

I compare this to the kind of workout a trainer puts you through in the gym.

When you look at our level of capital, when you look at our quality of capital, when you look at our ability to generate capital, I believe we pass the capital fitness test.

Returns: Changing industry trends

Our second area of focus is returns.

This slide shows that returns of 15 to 20% in the years preceding the crisis are well above the historical average of 11%.

If you adjust for macro economic conditions, for corporate and consumer deleveraging, and for the impact of regulation, average returns for the industry will be in single digits unless banks take action.

You will not 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.

Let me tell you how we're doing that.

Internal focus on Return on Equity

Chris and I chair a regular returns and capital allocation committee and this is the chart we showed the Board last November it breaks the businesses down into over 40 component parts to put a spotlight on each and every one.

To give you an example, we broke Fixed Income, Currencies and Commodities down into more than the three obvious parts and we did that for every single business asking 3 questions:

Can the business be seen as top tier in the minds of its customers and its 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 last 3 years, returns today – the spot returns,
and expected returns over our planning cycle – the next 3 years.

Our goal is simple – to eliminate or improve every business that
doesn't meet our criteria on the left side of this chart.

On the basis of this analysis, we're taking decisions about the future
of these businesses.

This is not a complete list but let me give you a couple of examples.

Our business in Indonesia was subscale and we couldn't see a way
for it to generate acceptable returns so we're closing it.

In Russia we've made a decision to focus our business on
government entities, large corporates and multinationals and to exit
the retail business where we were unable to compete.

As you heard from Chris, we've written off goodwill of £243 million
as a result.

By focusing on corporate and investment banking, we will both
contribute to the development of Russian Capital markets and
strengthen our leading position in Russia.

Here in the UK we're moving away from financial planning delivered
through our branch network by providing retail investment services
through our on line platform instead.

Barclays Financial Planning was unable to deliver sufficient returns
to be viable and it also diluted an otherwise strong performance in
UK Retail Banking so we've announced our intention to close it.

We know that 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 also made a commitment to reduce them significantly again in 2011.

Protium is an example.

Since this transaction was approved by the regulators in 2009 the capital charges have doubled, and post Basel III they will have tripled, so we've begun a process to facilitate an early exit and taken an impairment charge.

In Spain we're clearly not earning the returns that are acceptable but we believe we can build a business there that is top tier with customers and clients so we're taking action to return our under-performing businesses to profitability and sustainable returns above the cost of equity.

That action includes:

putting the right senior team in place and appointing a new CEO in Spain which we announced last week;

restructuring the cost base;

and maximising profitable income growth:

by focusing on higher margin products and more profitable customer segments in Retail Banking

and by building our cash management, trade finance and risk management capabilities in Corporate Banking

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

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

This process should result in stronger performance and better balance across the group.

For obvious reasons I'm not going to talk today about actions that have not yet been finalised but take it from me that we will continually challenge each business on its return profile and its customer proposition

Of course another way we can boost returns is by looking at our run rate of costs so we've put in place a cost program.

But I recognise we need more than just a cost program so we're reviewing how we run the business to make efficiency and customer satisfaction core capabilities at Barclays.

This starts by looking at performance.

I'm immensely proud of our people at Barclays and of the work they do and I strongly believe in the philosophy of constant improvement.

That has many dimensions – from training and development, through to managing out those who underperform.

Each and every business has been challenged to review their people at every level because we cannot accept anything less than outstanding performance given what I want to achieve.

As you'd expect, we're reviewing every category of discretionary spending from travel to consulting to sourcing – you know the drill.

And we're also looking at how we manage our functions including Finance, Technology and Human Resources

We need to eliminate any duplication and see how we can do things more efficiently.

Right now, for example, we're investigating the way we manage our property and facilities portfolio,

our procurement and supplier management,
and our accounts payable activities.

The result will be an organisation that's more efficient,
more responsive to customers and clients
will run at a lower cost,
and is fit for the new regulatory environment.

The financial impact of this is very clear - we will take at least a billion pounds off our run rate cost base by 2013 but importantly we're not waiting - we've already identified savings of £500 million in 2011 or £250 million net after restructuring charges.

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

We can see pretty clearly how the combination of:

fixing or exiting businesses with poor returns,
reducing costs,
reverting to a more normalised impairment level and growing top line income,
allows us to target a return on equity of 13%
and a return on tangible equity of 15% by 2013

This is a realistic goal not just an aspiration, 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.

And 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 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. This is very clear but driving top line growth is an integral part of improving

returns and we see clear opportunities for top line growth with attractive returns that we must execute on.

Income growth: clients and customers

Corporate Cards

In our cards business we have a leading market position, the benefits of scale, and strong technology

That's why we already generate a return on equity of 13%, and a return on tangible equity of 19%, with a return on risk weighted assets of 1.9%

These are all strong numbers at this point in the cycle.

This gives us the opportunity to drive top line growth and there are two specific areas of focus:

First we're a market leader in Wave and Pay cards for consumers because of our successful investment in technology.

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 our commercial cards business.

Wealth

Wealth management is a perfect example of a business that was not historically top tier in the eyes of its clients but we could see a way to build it into a business that was and deliver top line growth along with high returns so we launched the Gamma plan last year.

One year into that 5 year investment program we're making excellent progress.

Income last year grew 18% and we expect industry leading compound annual growth of more than 15% over the next 4 years of the Gamma plan.

Equities and M&A Advisory

We've also been investing in our Equities and M&A Advisory Businesses which as you know are high return businesses that don't use a lot of capital and we're already seeing powerful results.

In 2010 we were Number 2 in M&A in the United States and we ranked in the top 5 globally.

We advised on 8 of the top 20 global deals
Just last week we were appointed corporate brokers to BHP Billiton and IAG, the merged British and Iberian Airways.
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.

We expect to increase annual revenues from these business lines by £2 billion over the next 3 years.

Growth markets

One Africa

We also have growth opportunities in some of the fastest growing markets in the world

Africa presents a terrific opportunity for Barclays.
GDP there has grown at more than twice the rate of the developed world for the last ten years, its collective GDP of 1.6 trillion dollars

equals that of Brazil or Russia, and consumer spending is growing at more than double the rate of that in OECD countries.

We already have a competitive advantage in Africa because of our existing businesses.

We're present in 11 countries across the continent, including South Africa, and we're top 3 in 9 of those 11 countries.

This gives us a unique footprint in the third fastest growing region in the world.

Africa already generates 15% of Group Revenues, and we've taken the decision to align Absa more closely with Barclays Africa to execute a One Africa strategy giving us better opportunities to serve clients across the continent and enhancing our competitive advantage.

Asia

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

Our approach in Asia, as you'd expect, is to focus on those areas where we can be top tier in the minds of clients and deliver good returns

Areas such as our High Net Worth business in Wealth and our equity and advisory businesses in Investment Banking where we are 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.

Citizenship

Our 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 support the economy, or what we do to support the communities in which we live and operate.

It is certainly an area where we have to do more

The role we play in job creation and growth is especially important today because in the developed economies economic growth cannot come from the public sector it has to come from the private sector

And banks have a vital role to play here and we take our obligations seriously.

So let me give you some statistics on the most obvious way we help: 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've created opportunities for almost 3000 students on our internship program over the last 3 years often the first way to get jobs for kids on campus and we've also hired 4000 graduates including twelve hundred last year when other employers were retrenching 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 customer and our clients around the world, including £43 billion of new lending to UK business and households in 2010.

Last year we helped over 100,000 people start up in business that is 10% more than in 2009

These are critical contributions to economic growth.

In addition we support the communities in which we live and work, by contributing £55 million a year to a wide range of activities.

Let me give you a couple of examples.

Spaces for Sports is a community sports programme we launched in 2004 with the single biggest investment in UK community sport from the private sector ever.

That's delivered 200 sports sites around the UK used by 60,000 young people every week in disadvantaged communities.

In 2008 we extended the programme outside the UK and we've done this because we recognise the role sport can play in transforming lives by building confidence and self esteem.

Room to Read is a charity that operates in developing countries

It transforms the lives of young people by building literacy skills and by supporting girls to complete secondary education.

Barclays has a strong partnership with Room to Read and our investment has enabled the creation of 250 new school libraries across Asia.

But we don't just give money - we give time.

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 and we do so 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.

We know we have to do much more in this respect.

Conclusion

I want to sum up by leaving you with this thought.

The trends I've talked about this morning in relation to capital, to returns, to income growth and to 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 those trends and those that are not.

The gap between winners and losers will become greater than ever before.

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 to be here in my new role today is because
by delivering on our promises,
delivering on our promises on capital,
delivering on our promises on returns,
delivering on our promises on income growth
and delivering on our promises on citizenship

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

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