Thank you, John, and thank you to Morgan Stanley again for holding this conference. Good morning, to all of you. As John said, it has been an eventful 12 months since last year’s conference both for our industry and for Barclays. I think today we’re in a position to look back on what has occurred and to focus on the progress that we are making towards creating a system that is equipped to deal with the significant challenges ahead. The global economy has shown itself to be remarkably resilient. I can’t help but step back for a second and all of us can think back to the fourth quarter of 2008, when I think we saw, I felt at the time, and I’ve thought since then, probably, the deepest, the sharpest and the most global economic correction in decades.

And yet, by the first quarter of 2009, the end of the first quarter of 2009, we saw growth in China start to help Asia recover. By May and June we saw production coming back in France and in Germany and by the very beginning of the third quarter we had growth back in the US economy. So I don’t say lightly, and I’ll say it again, that the global economy has shown itself to be remarkably resilient and responsive despite the difficulties of the last two years and the many challenges, that we still face. We are starting to see the architecture for the future of the financial services industry take shape and we’re already seeing very significant response from some banks, and when I say some banks, I certainly include Barclays. The goal is very, very clear. The goal is that we need to achieve a safe and sound financial system. But the goal is also to enable banks to support economic recovery and job growth. We are already well on our way towards a safer financial system so it is really critical that we get the balance right so as to ensure a system that can support the global economic recovery.

Clearly, there are a lot of moving pieces on the regulatory front and we are approaching these issues with the same mindset that we set out at the beginning of the financial crisis. From the beginning, both John Varley and I were clear that we had two goals for Barclays and that was to operate profitably and to maintain strategic momentum. And we have done just that, operating profitably through every reporting period and improving our strategic position. Our focus today continues to be very similar. It’s around managing risks and managing returns. It’s around continuing to manage the terrific strategic momentum that we have across the Barclays Group and it’s continuing to do what got us here, and that’s staying close to our clients and our customers.
I won’t repeat what we said at our results announcements on these themes but it is clear that the evolution of the regulatory environment, particularly, around capital requirements will have an impact on returns within our industry. It’s impossible to quantify this precisely as there are still many moving pieces. We have not given specific guidance at a group level save for saying that we’ll generate returns in excess of our cost of capital. And for Barclays Capital, we have been specific and said that we believe we will achieve 15% to 20% returns over the cycle. So I’ll try and give you a sense today of how we see this playing out. Before I get to the specifics on Barclays and Barclays Capital, I’ve been working for the last couple of weeks closely around US regulatory reform and I’ve been working on what could potentially be an Op-Ed piece on regulatory reform. As I’ve done so much work around that, around capital, around oversight and over resolution, I want to take you through some of my thoughts on those subjects.

In this critical debate on financial reform, the impression has been created that it is the large banks against the regulators and legislators. This is very far from the truth. We have shared goals of creating a safe and sound financial system which people can trust, while at the same time, one that fosters economic and job growth. The banking system has for now lost much of the public’s trust. If we are to move our nation, our national and our global economies forward, there is no other way but to have strong banks acting in the interest of clients, of shareholders and of our communities. Banks are still the primary source of capital for individuals, for businesses, for Governments. Until the rules are rewritten and made clear, the economy cannot move forward. To achieve this, our bank leaders must be actively engaged with our Government and regulatory leaders to achieve our shared goals. To pass effective regulatory reform we must build upon the progress that has been made and focus on three critical areas. Capital, oversight and resolution.

On capital, the most critical area of reform is putting in place an appropriate international framework around capital requirements for banks and other financial institutions in implementing these over a balanced and extended timeframe. One of the clear lessons from the credit crisis was that too many institutions had too much leverage, too little liquidity and not enough capital when risks went bad. Using capital requirements to regulate banks will resolve the core challenge of managing risk, leverage and liquidity. And it will do so without undermining the ability of banks to lend, to make markets and to facilitate global trade flows. However, if we get this wrong, the desired reforms will be ineffective and the scale of the global economic recovery will be put at risk. Capital requirements should be based on the risk of the underlying activity and should reduce the potential for a concentration of risk on a bank’s balance sheet.
To be effective these requirements need to be consistent around the major economies to ensure a level playing field and avoid the risks of capital arbitrage across markets. In addition, they should be implemented over a time scale that enables the sector to build the necessary capital, rather than causing another shock to the banking system by requiring immediate capital increases. This is why we support strongly the work of the G20 and we should recognise the sector has already done much to raise both the quantum and the quality of equities.

On oversight, effective execution of regulatory oversight is as critical as the underlying regulatory framework itself. Many of the regulatory powers were in place to prevent some of the core issues behind the recent crises. However, oversight has failed. Oversight is critical to protecting consumers, investors and the integrity of the markets overall. Strong banks, and this is really, really important, strong banks welcome strong oversight as all suffer from the failure of weaker banks. Oversight is best achieved by regulating activities not institutions. This allows for consistent and specialised focus by regulators and avoids the failures we witnessed by regulatory arbitrage. Oversight will only be truly effective through investment and the capability and specialism of our regulatory bodies.

We strongly support a well designed systemic risk oversight authority which can skilfully monitor risk and work with regulators to manage and tighten controls on firms that are in distress and pose a risk to the financial system. A great deal of attention is being given to the oversight of derivatives markets both here and the European Union and in the US. We believe the starting point should be recognition that transparent, efficient derivative markets that allow risk transfer are critical to clients and to the broader economy. Many companies, pension funds, governments and endowments need sophisticated derivative markets for raising capital and for managing risks, particularly, across international markets. The derivatives markets have become as important to many clients as the underlying stock and bond markets.

We support regulation that brings total regulatory transparency and reporting of every derivatives transaction, everywhere in the world. We support the clearing of eligible derivative contracts and agree that if products can be standardised, then trading on the exchange should be achievable. However, many policy makers must also recognise the necessity of a robust, over the counter market providing customised solutions for the risks our clients face, that can either be cleared or exchange traded. Just like a cleared and exchanged traded derivative, those OTC transactions would be reported immediately to regulators. This means we can achieve both of our goals for a robust, client focussed OTC market and transparency in reporting and clearing.
On resolution, no bank should be too big to fail. If a bank fails the goals should be that no tax payer money should be used to resolve that bank’s future or that bank’s obligations. One clear lesson from Lehman Brothers is that without a resolution regime there was no process to deal with the failure of a large bank and no protections against the ensuing turmoil. We must have in place a resolution regime that will effectively identify and deal with the stressed financial institutions. We must have rigorous and regular stress tests to measure what would happen under extreme market circumstances and enable authorities to act swiftly and accordingly. And every bank must have a living will, a plan to wind down a failed institution in an orderly process. If a bank fails, the goal should be that no tax payer money should be used to resolve that bank’s operations or its obligations while ensuring the tax payer money that has already been committed should be repaid.

If a new resolution authority requires funding, that funding should come from the industry with a series of mechanisms under consideration that could achieve this including levies on liabilities with the creation of a financial insurance fund. Much of the commentary on this topic refers loosely to either a fund or a tax as if the two are interchangeable. They are not. While we appreciate why a tax aimed at penalising the sector has popular and therefore political appeal, we must recognise that it would add nothing to financial stability, which is and should be the overriding objective of the reform of the financial system. A resolution fund or levy of some form, however, like the deposit insurance funds that are already in place, could contribute. In designing such a levy the guiding principle should be the same as with all other regulation, consistency across markets. The G20 has an important role to play here aided by work under way at the IMF. As an industry we do recognise that reform is necessary to make the system safer and that putting such reform in place will ultimately help us serve our customers and our clients better. We also have an obligation on behalf of our customers and clients to help the authorities get the implementation timing right.

The economic recovery is fragile in many markets. The aggregate impact of the proposed changes therefore, needs to be carefully understood to ensure that this economic recovery is not threatened as we achieve a safe and sound industry. So stepping back from this for a second, why is this important today as I speak to a group of investors? I think a couple of things come out. Investors, like banks and like regulators, should recognise the importance of getting a balance between ensuring a safe and sound financial system with one that can enable economic recovery and job creation. Not just for bank earnings, for earnings. A more robust regulatory regime for capital, for oversight and for resolution is critical to the confidence in the system. That in turn is, key to the investment case. The outcome on capital is critical to understanding the ability to generate returns. Some banks have already adapted and protected their client franchise to provide confidence in delivering returns to shareholders moving forward.
Let me turn now to a series of slides about Barclays and Barclays Capital and see how we’re responding to just these issues. Step back to the summer of 2007 when the credit crisis began in earnest. I think many of us echoed the same words at the time. Banks were going to need to increase the quality and quantity of equity, reduce leverage and increase liquidity. I think the point of this slide is important. Banks aren’t waiting for the final decisions around regulation. Banks are already responding, certainly, Barclays is. I think if you look at these slides you see that just during the year 2009, Barclays increased its core equity from just under 6% to 10%. It’s, tier one, equity to 13%. Adjusted leverage, which in the summer of 07 was in the high thirties, is now at 20x and our pools of liquidity of cash on the balance sheet have more than tripled to almost £130 billion. As the Morgan Stanley research that came out recently on the industry pointed out, I always like to talk about the sponsor’s research, but most importantly when it agrees with what I think. So in this case I am quoting the sponsors research.

What they pointed out was very, very important about our industry. Return on equities going forward, the returns going forward will be lower for our industry but importantly the divergence of returns will be greater than they’ve ever been before. The separation of winners and losers in returns is going to be greater than we have ever seen before in this industry over the coming cycle.

The revenue drive, the revenue advantage, the funding advantage at Barclays are due to our model, they due to our execution and they due to our client focus and they clearly give us an advantage in this regard.

This is a slide some of you may have seen before. It’s a slide that John and Chris used at our results presentation for the full year 2009. But I think it’s important to tease out a few things. During the year that these results were produced, keep in mind the dramatic increase in capital, the reduction in leverage, the increase in the pools of liquidity. While driving revenue growth up over a third, can you think of any bank that’s even close to that, driving a revenue increase in this environment, while managing returns, managing capital, managing liquidity, managing leverage and driving revenues up a third. We’re also able to manage a very difficult environment in credit markets, in provisions. With £8 billion in provisions and an initial £6 billion between credit market provisions through the income line and owned credit reversals four and two for a total of six there, giving return on equity, including the BGI BlackRock transaction of 24% and a return on equity even excluding the BlackRock BGI transaction of 8%.
I think it’s also important to point out here, because I know it’s on many people’s minds and I’ve had many questions about the stories about US retail, what both John and Chris said at the results presentation about our focus on global retail banking under Antony Jenkins. It’s about returns and it’s about deeper and I think it’s clear that if we keep emphasising exactly what we said, it’s about returns and it’s about deeper, you get our answer to the speculation about US retail pretty clearly.

Let me turn now to a couple of slides about Barclays Capital. I think Barclays Capital for this audience is critical to understanding more about Barclays Capital to understand more about returns in the Barclays Group and the investment case in the Barclays Group. This is a slide that I’ve used consistently for a decade and originally it was all about the cycle and I think in the early days there was a reluctance to believe that Barclays Capital, with its more narrow business model, could perform in different cycles. But I think it also teases out things about organic growth, about the Lehmans acquisition and about operating leverage.

So let me talk through a couple of things in this slide. The first is that you can see both from revenue, top line and PBT, there’s been a consistent pattern of operating through almost any cycle, of interest rates, credit spreads, volatility, M&A activity, equity markets, inflation. It pretty much doesn’t matter. We can execute through the cycle and through various market conditions and I think one of the things that’s highlighted here is there has never been a reporting period with a loss for Barclays Capital. The second thing that gets teased out here is, look at that top line revenue growth. We actually originally began this slide in the year 2000 and it just got a little crowded. The story’s exactly the same going back to the beginning. But this is about an organisation that knows how to build businesses. Think about the position in the core business of fixed income, currencies and commodities at the beginning of this decade in 2000. We had a sterling business in the rates. No presence really in dollars or euros. We were 25th ranked foreign exchange business in the world, today we’re in the top three. And we had a commodities business that in the year 2000 that generated life to date £1 million in PBT and today we’re in the top three in that business.

So during that period you’ve seen us grow brick by brick, client by client, business by business, pay as you go, you can see the revenue, you can see the PBT, so that today we’re one of the top three firms in the world in fixed income, currencies and commodities from pretty much a standing start.
The third thing it teases out is the impact of the Lehman acquisition. Look at that curve change shape last year. Income and our best year ever of just under £10 billion going to just under £18 billion in 2009 and while we can’t be precise because the integration is complete, 40% to 45% of that revenue directly attributable to the acquisition of Lehman Brothers in the US. And I think the client numbers that came during that year are also important. In 2009, the number of clients doing more than £1 million in business with Barclays Capital increased over a third. We now have almost 1,400 clients doing over a £1 million of business a year. But also the number of clients doing over £10 million of business with Barclays Capital increased almost 40% in 2009.

But operating leverage I think is the single most important thing and it gets teased out in this slide. Go back to the end of the slide in 2009 with just under £18 billion in revenue and a record PBT of close to £2.5 billion. What you see clearly is a growing divergence between top line income and PBT beginning in 2007, not a big surprise. That’s when the credit markets began to have problems and that’s when we began to take write downs on legacy assets. And I think the critical thing for all of us to understand is as we move beyond the write downs with legacy assets, which we’ve clearly said we are doing, the ability to get leverage from that gap between PBT in top line revenue is significant.

And that’s one of the reasons that we have such confidence in the ability for Barclay Capital to generate 15% to 20% returns over the cycle. This business has been built on an incredibly powerful client franchise. We exited separate proprietary trading in 1988. We have not lost focus on our clients through the crisis and our fundamental client needs, the fundamental needs of our clients are not going away. It shows the track record of adapting to market environment changes and the growing market share by growing our businesses with our clients.

Before leaving this slide, there is one more thing that I think is worth talking about, and that’s the flow monster and I want to go back to the Morgan Stanley research again. The Morgan Stanley research pointed out clearly that the top investment banks that have truly created a flow monster have a competitive advantage in the environment we’re in, a strong competitive advantage. And a flow monster is a business built on scale, built on technology and built with outstanding risk management. And it’s kind of cool today to say you have a flow monster. But if you’ve been following Barclays Capital, we may or may not have invented that phrase but we’ve certainly been using it for over a decade and it’s exactly how we’ve been defining our business in rates and in fixed income, currencies and commodities over the years. It’s scale with clients, it’s investment in technology our BARX platform, and it’s the incredibly strong risk management that gives us a competitive advantage in this environment as a true flow monster.
Let’s take a little bit different look across asset classes in this business. Now I think, our confidence is reinforced when we look at the business this way. Start on the right hand slide, businesses where we were clearly under weight relative to our peers prior to the acquisition of Lehman Brothers in the US and that would be our equities franchise and our investment banking franchise, incredibly strong growth last year. Not surprising given how under weight we were, but a couple of things I would keep in mind. We have built out our European franchise in both equities and advisory. So beginning last October we are now up and running in sales, trading, research, origination, secondary cash and derivatives across the entire time zone. And operating effectively and would expect to make some real headway in that business in this time zone in this year. Good upside there.

In Asia, we have a significant portion of our build out done. We would expect to be live in that time zone, incrementally, over the next few months but certainly, between the end of the second quarter and the end of the third quarter, we should be live across that area. 2009 was a lot of expense, no revenues, there’s still some expense as we build out these businesses through 2010, we’re 80% to 85% done in Europe and over 50% done in Asia. But keep in mind this is a small build. Our head count increase on a net basis will be small if it’s anything this year and that’s why it’s important to understand the core competence that BarCap has in building businesses. And the success of our European and Asian franchise is something that we look to see good operating leverage going forward. But most importantly, being a truly global firm in the equity franchise and in the IBD franchise will improve our US operations as well. So we see significant upside there across equities and across investment banking.

Fixed income, currencies and commodities I’ve talked about. This is the flow monster and our equity business is going to be a flow monster as well. But it’s important to recognise that with £13 billion of revenues we’re second in the world and we’re top three in virtually every market across fixed income, currencies and commodities in every region and in every currency. A very, very strong position to be in today and I get a lot of questions about fixed income - is the best behind us? And I think the Morgan Stanley research points out, and I think there’s a consensus that, across the industry fixed income, currencies and commodities, revenue is expected to be down this year off the robust 2009. But keep in mind that there’re many aspects of 2009 that were not vintage. Zero interest rates and a flat yield curve, does not define a vintage fixed income market for me. What was true in 2009 was the tremendous first half as we bounced back from the severe correction toward the end of 2008. So I’m not arguing necessarily with Morgan Stanley’s FICC industry wide could be down. But fixed income is a very interesting opportunity going forward, particularly, for the flow monsters, particularly, for the top firms.
Let me just talk for a second about the implication of Dubai, in Greece and other sovereign situations like that. There is going to be more differentiation in credit. Not just in the corporate markets but in the sovereign, super national and government markets. And as we reduce leverage substantially in the private world, we’ve increased leverage substantially in the public world. If I use just one number from the United States, in less than the next 18 months, by June next year, over four trillion in US debt, notes, bonds, bills and agencies will mature. That doesn’t even take into account the new financing that is required. And if you look at that across Europe, in the US, around the world, the demand for funding in sovereign, supers, Governments, Municipalities, and with the differentiation between Greece and Germany, for example, clients are not going to spread their business around. Clients are going to be looking for banks that have scale, that have technology, that have risk management, that have research, that have sales, that have trading. It’s no surprise to me that you’ve been seeing the Barclays Capital name as a lead, on virtually every significant sovereign and government deal that we’ve seen this year.

So let me wrap up. I think in regulation there is no question that this is way too big and way too important to get wrong around capital, around oversight and around resolution. It’s about balancing a safe and sound financial system with jobs and economic growth. We are also too close to lose momentum. Bank earnings came back in 2009, the global economy began to recover in 2009. We’re very close between banks and regulators and we’ve made real progress around the G20. Secondly, I think it’s true that banks are responding, you saw it in the Barclays numbers, we’re certainly not alone. Banks are moving in the direction not waiting for the final rules around capital, around liquidity and around leverage.

Finally, in an environment of lower returns, where there is going to be higher divergence between the winners and the losers, I believe that to strengthen the regulatory environment will benefit well run institutions over the long run. It will increase the advantage of strong governance, strong risk management and places more importance on the strength of an institution’s client franchise. Markets will evolve to adjust for capital increases which will come over time and competition will ensure that clients receive the most efficient product and services available. I am very confident that Barclays integrated model and relentless focus on clients, positions it very well to succeed in the new environment ahead of us. We are already seeing the gap widen between the winners and the losers coming out of the crisis and I expect this will continue over the coming years.

Our focus at Barclays is on returns and however the capital evolves we are confident that we can deliver at Barclays Capital 15% to 20% returns across the cycle. And that’s why John was confident enough at year end during our results in saying that our group returns will exceed the cost of equity. Thank you very much for the time this morning.