BARCLAYS

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Goldman Sachs European Financials Conference

1. Good morning.

2. I'd like to start by thanking our hosts, Goldman Sachs, for inviting me to speak today.

3. I will focus on three topics:

   - Our view of the environment;

   - What Barclays has done, and is doing, to manage through that; and what you can expect from us over the coming months.

4. 2009 was a difficult year for the banking industry.

5. The events of 2007 and 2008, and the collapse of confidence that they triggered fed directly into a crisis in the real economy in 2009 and a recession more severe than anything we've seen for nearly 100 years.

6. The steps taken by governments around the world in 2008 and 2009 helped avert a recession even more severe.

7. Because of these circumstances, every management team in the industry was heavily focused on the short-term.

8. That remains the case today.

9. The events of recent weeks show that all too well.

10. In many developed markets, unemployment remains high, and consumer confidence is fragile.

11. Governments across the developed world are faced with anaemic growth; high fiscal deficits; and growing debt burdens whilst governments across the developing world are experiencing moderate growth; surplus savings; and signs of growing inflation.

12. In many respects, these are the same imbalances that lie behind the crisis through which we've come.

13. Adjusting those imbalances will necessitate difficult decisions and time.

14. Such confidence as has returned is still very fragile and recent events show this.

15. Much attention has been directed at determining the causes of the crisis and putting in place changes that will ensure that such a crisis never occurs again.

16. We believe these changes will include:

- higher Core Tier 1 capital;
- higher risk weightings on certain activities (particularly in the trading book);
- higher capital deductions;
- lower leverage;
- higher liquidity; and
- a new remuneration architecture.

17. The authorities are consulting on many of these things with the aim of agreeing changes by the end of 2010.

18. It’s important to note that in the areas of capital, leverage, and liquidity, the industry is already in much better shape than it was in 2007.

19. At Barclays, our Core Tier 1 ratio stood at just under 10% at the end of the first quarter of 2010.

20. We held surplus liquidity of over £150bn.

21. Our adjusted gross leverage stood at 21x (down from 33x at the end of 2008) and our compensation architecture has evolved to reflect the recommendations and requirements of the G20 and the FSA’s Code of Practice.

22. We support the direction of change but believe two important principles should apply.

23. First, we must have consistency.

24. Banking is a global industry because the needs of many clients have globalised.

25. Banking risk has globalised too.

26. The risks that have hurt the world in the financial crisis have paid little attention to geographical borders.

27. Consistency, however, does not imply homogeneity.

28. We believe there is too much difference in the economies and the banks across the world to make homogeneity of reform a viable or likely outcome.

29. But only a framework that is internationally consistent will create greater resilience in global financial markets.

30. Second, we must have a transition timetable which is sensitive to the key objectives of sustainable economic growth and jobs.

31. Banks have an obligation to help economies stabilise and regenerate.

32. If the rule changes are applied too quickly, that will limit the ability of the banks to lend.

33. We have one shot at getting reforms of this magnitude right.

34. In an environment of such complexity we need absolute clarity on the ultimate objective.

35. That objective must be: sustainable economic growth and jobs.

36. So what has Barclays done to manage through this period?

37. 2009 was a year of record income, strong profits, less risk in the balance sheet and lower leverage.

38. In the areas of capital and liquidity we made good progress, as I have mentioned, in anticipating the requirements of central banks and supervisors and thereby positioning us well to accommodate the further changes that are coming.

39. On the strategic front, we did the BlackRock transaction.

40. We moved quickly to build-out our European and Asian equities and M&A business before others undertook significant hiring in the capital markets.

41. We acquired the credit card business in Portugal.

42. We entered a joint venture in life assurance in Spain, Portugal and Italy with CNP and we acquired Standard Life Bank in the UK.

43. Meanwhile, we created equity by profit generation and strengthened capital ratios by managing the balance sheet tightly.

44. We put the pursuit of returns before growth.

45. We have used our expanded retail distribution network to gather deposits and improve our loan-to-deposit ratio.

46. We produced positive cost:income jaws of 10% for the year.

47. We have, over the last two years, been seeing the asymmetry of income and impairment cycles between our capital markets business and our retail and corporate banking businesses.

48. This is one of the benefits of running a universal banking model.

49. Our performance in the first quarter of 2010 was, as in 2009, resilient.

50. This slide contains a few of the Q1 financial highlights.

51. Compared with the same period last year Group profits on a headline basis increased 47%, to £1.8 billion.

52. If we adjust for the impact of acquisitions and disposals, and for own credit, to give you the best like with like comparison our profits rose 90%.

53. Group income increased 4%, to £8.1 billion.

54. Impairment fell by 35%, to £1.5 billion.

55. Profits in Global Retail Banking were broadly stable, at £403 million which we are pleased with, given the ongoing squeeze in liability margins.

56. Bad debt charges in GRB were down considerably over the fourth quarter of 2009 driven in particular by improvements in UK Retail Banking and Barclays Africa.

57. Profits in Corporate and Investment Banking and Wealth Management rose 47%.

58. I’ll comment on Barclays Capital in a bit more detail than the other businesses.

59. Barclays Capital’s net income was £3.5bn, an increase of 37% and profit increased 62% to £1.5 billion.

60. Top-line income here was £3.8 billion – which was a bit above the average of the third and fourth quarters of 2009, although below the average of the first and second.

61. We are encouraged by our Q1 performance at Barclays Capital.

62. There has been much focus, since we made our Q1 Interim Management Statement, on top line income here.

63. Any comparison based solely on this measure of performance ignores business mix differences and does not address the critical issue of the amount of risk we are taking.

64. We did not chase income by adding risk in Q1.

65. As a result we believe that we're well-positioned in the context of current market volatility.

66. The quality of our client-driven business, coupled with risk discipline, will continue to drive net income, and returns, in volatile markets.

67. Our objective in Barclays Capital is to deliver high quality income and stable (and growing) risk-adjusted returns.

68. Over Q1, we gained or maintained market share across the business.

69. Our newer equities and investment banking businesses are delivering growing revenues and we expect their contribution to expand through 2010 and beyond.

70. Profits in Absa more than doubled, partly helped by the strength of the Rand against Sterling.

71. So, as we look forward, we are focussed on the same three objectives that have guided us throughout the crisis staying close to customers and clients, managing our risks and maintaining strategic momentum.

72. In the area of staying close to customers and clients we believe that the steadiness of our profit performance during the crisis is

largely attributable to the diversification of income that our strategy has produced.

73. Income is a good proxy for the quality of customer and client relationships.

74. High levels of income shown on this chart have enabled us to absorb a significant increase in write-downs and impairment.

75. Turning to "managing our risks" risk management has been one of the principal differentiators in bank performance over the last few years.

76. Our risk management was subjected to a further severe test during 2009.

77. But we predicted in February 2009 that the loan loss rate for the year would be in the range of 130-150bps and it was.

78. We said at our results announcement this February that although we might see further deterioration in some specific areas overall, the worst of the impairment cycle appeared to be behind us, and that we had seen the turning point.

79. So for 2010, we referenced a moderate decline in impairment year on year but probably not as fast as the 20 percent drop we saw from the first half to the second half of 2009.

80. Looking at this again four months later, impairment in the first quarter of 2010 continued to trend better with total impairment charges representing a loan loss rate of 112 basis points (on an annualised basis) compared with 135 basis points for the full year 2009.

81. We continue to expect an overall improvement this year and our view is that the improvement will be slightly better than the guidance we shared in February.

82. I want to take this opportunity to say a bit more about our exposures in countries such as Greece and here in Spain.

83. At the time of our Q1 IMS we disclosed a net sovereign exposure to Greece of less than £200 million. Our exposure to other classes of Greek risk is not material as our retail and commercial businesses there are very small.

84. We do not comment generally on individual country exposures but were specific on Greece because of the very misleading numbers that were in circulation.

85. There has also been increasing focus on banks' exposures here in Spain and to other Eurozone countries.

86. I would remind you that at the end of 2009 our net wholesale loans and advances in Western Europe were just over £12 billion, substantially all of which was to corporates. At the end of April 2010 Spanish wholesale exposures accounted for about three quarters of that figure. We continue to see some stress in Spain particularly in the SME and real estate sectors. To date our provisioning has been conservative in accordance with IAS and will continue to be so.

87. Our net retail loans and advances in Western Europe were just over £40 billion at the end of 2009, of which almost £35 billion was in mortgages. Spanish exposures were just under half of both these amounts at the end of April and it is worth remembering that our Spanish mortgage book is conservative, with an average loan to current market value of 51% at the end of 2009.

88. Our other exposures to the Spanish sovereign, and to large corporates and financial institutions total approximately £7 billion and are held in the context of our investment banking and treasury activities.

89. We expect the business environment to be tough in Spain in 2010 and 2011 but are confident in the attractiveness of Spain as an important market for our businesses over time.

90. The greatest strategic risk for us is the uncertain outlook for regulatory reform.

91. It is a risk we must try to manage by being heavily involved in these discussions. Some commentators continue to think that the reform agenda could require the deconstruction of large, universal banks and a Banking Commission will be set up in the United Kingdom to investigate if such a break-up would make the financial system safer.

92. We do not believe that this would lead to a safer system.

93. Indeed, there has been no correlation at all between “failure” and big or small, narrow or broad, domestic or international.

94. We see big banks as risk diversifiers, not risk aggregators.

95. We believe that our view will prevail but for this to happen governments and supervisors need to see the big banks adopting a responsible attitude towards capital, liquidity, leverage, derivatives, remuneration and disclosure.

96. As I said earlier, reforms in these areas are under consultation by the authorities now with a view to agreeing the changes required before the end of this year.

97. We will need to accommodate such changes as are finally enacted over the coming years and we have the ability over that period to take mitigating action.

98. We have sought throughout this crisis to anticipate the direction of changing regulatory requirements and we will continue that practice.

99. Turning to our third objective, “maintaining strategic momentum” Barclays strategy has been stress-tested over the last three years, and we think it has withstood that test quite well.

100. Our strategy is to increase our growth potential over time by diversifying our business.

101. Despite the regulatory uncertainty that I just described, our strategy remains very clear.

102. You will see that our strategy includes specific objectives for Barclays Capital, GRB’s international activities, Barclaycard, Barclays Corporate, and Barclays Wealth.

103. Let me briefly run through each of these.

104. First, to consolidate the position of Barclays Capital in a transformed investment banking industry.

105. Second, to convert, into sustained profits, the investments that we’ve made in our international retail and local business franchises, including in Absa.

106. In that context, we created Global Retail Banking last November because this structure creates the best alignment between our retail capabilities and the needs of this customer segment.

107. We have significantly grown our retail footprint over the last three years.

108. We have asked Antony Jenkins, the Chief Executive of GRB, to push that strategy forward strengthening the UK franchises but increasing the ratio of non-UK to UK business with particular emphasis on creating critical mass in markets where we already have a greater presence.

109. To be clear: our goal here is depth, not breadth.

110. We acknowledge that we have been too aggressive in our approach to business expansion in certain Emerging Markets.

111. But we have built scale quickly, and we now serve almost 4m customers across these markets.

112. We have achieved good progress in the income line

113. But now we must convert the investment in people, in customer recruitment, and in sales outlets into sustainable profits.

114. We will be holding a GRB investor day on 30 June to talk about how we intend to do this in more detail.

115. Third, to continue to diversify Barclaycard where the number of customers outside the UK now exceeds the number inside the UK.

116. Fourth, to build out Barclays Corporate, with a focus on internationalising it further, whilst developing our core franchise in the UK.

117. We created this business last year to serve the needs of our UK and international large business customers.

118. We placed it alongside Barclays Capital to form Corporate and Investment Banking.

119. We see the close relationship between these businesses – particularly in the areas of relationship management and sector expertise – as a source of significant synergy in the future.

120. As an illustration of that opportunity,

121. Only 10% of our Barclays Capital clients currently have a relationship with Barclays Corporate.

122. This is a very big opportunity.

123. We will also hold a Barclays Corporate investor day later in the year.

124. And fifth, to implement our growth plan in Barclays Wealth, transforming the scale of that business over time.

125. We intend to invest £350 million over the next five years, on a pay-as-you-go basis, to support this plan.

126. Execution of that plan is now well underway.

127. Two final comments relating first to dividends and second to our current funding position.

128. Given the current regulatory uncertainty, we take a cautious approach to dividends.

129. However, our dividend policy is intended to be progressive relative to an annualised dividend rate for 2009 of 4.5 pence per share.

130. Our performance in the first quarter of 2010 allowed us to declare an interim dividend for that period of 1p per share.

131. Secondly I wanted to stress the improvements in our funding position through 2009 into 2010 and where we stand today.

132. I mentioned earlier that our surplus liquidity at the end of Q1 had reached just over £150 billion which puts us in a good position to weather market stresses.

133. We remain ahead of our funding targets for 2010. In Q1 we raised £17 billion in public and structured debt. This compares to £15 billion in contractual maturities for the whole of 2010.

134. Over the last few weeks funding markets have been tougher but we have continued to access wholesale money markets in significant size.

135. Market conditions have improved over the last week and we are raising unsecured funds longer than 1 month in term well in excess of daily maturity roll down.

136. Throughout this period, secured funding markets have continued to operate normally – and the majority of our net wholesale funding needs are raised in the secured markets.

137. As we look forward, the environment is likely to remain difficult and turbulent, but we feel well placed to deal with the challenge.

138. We do expect conditions to improve, but uncertainty remains.

139. However, we must not allow this uncertainty to immobilise us.

140. We must maintain our strategic momentum.

141. This will generate profit and dividend growth over time.

142. We expect that our customers and clients will remain active, in part because of the uncertainty.

143. We must be ready to meet their needs.