23 April 2015

BARCLAYS PLC

Letter to shareholders from incoming Chairman

Dear Shareholder,

I am both excited and honoured to have been appointed as your new chairman, and am already enjoying working with Antony, his senior colleagues and your Board to bring Barclays to its rightful place in the leadership of British banks with the admiration that we have traditionally enjoyed.

You may not be aware that Barclays is older than the Bank of England. In and of itself, this emphasises our ability to succeed and advance in all circumstances, and symbolises the enormous responsibility that the chairmanship brings.

I am particularly fortunate to have succeeded Sir David Walker in the role. Sir David stepped into the chair in the eye of the crisis, and he was able to apply his considerable experience and skill to the stabilisation and the subsequent recovery of the bank. He has served the company with distinction, and led the Board superbly in his unique and eloquent style. I would therefore like to thank him on behalf of shareholders, for his enthusiasm, expertise, and dedication to Barclays. I am enormously grateful for his generosity in giving me a great deal of his time, which has allowed me to transition seamlessly into the new role.

Of course, over and above the months since the announcement of my appointment I am fortunate to have spent 40 years in the industry preparing for this role. I feel it has been tailor made for me and believe genuinely I can make an important contribution to our future.

As chairman, it would be normal for me to write to you in connection with this year's annual report, but it would be natural for shareholders to be curious as to what a new chairmanship brings for Barclays, particularly since I have been on the Board since January. I am strongly in favour of an open dialogue with shareholders. I will therefore take this opportunity to let you know my early thoughts on our agenda going forward. In this respect, I am not signalling specific changes, but simply giving you a sense of direction and priorities.

While much has been done to clean up conduct issues from the past, some unfortunately still haunt us, causing substantial financial and remedial costs from several high-profile matters, originating in our retail and markets segments.

Additionally, we are experiencing a financial drag from Non-Core segments that we are exiting. The rundown of these portfolios eventually releases capital, but hits the bottom line on the way.

Beyond this, although a number of segments are showing growth and improvement, our portfolio is largely concentrated in mature developed western economies, and these remain subdued. This is especially the case in the investment banking sector. Fortunately some green shoots are appearing, and the sector showed significant improvement in the first quarter, looking at results already published.

Our business in South Africa, one of the main banks in that market, is performing well in local currency, but from a Group standpoint results have been moderated by the decline in the Rand.

All of these factors, as well as a sizeable overhead burden arising out of the complex nature of the Group, have negatively impacted our overall margins, such that our cost efficiency levels operate below where they need to be.

At the same time, as a globally systemic bank we are experiencing considerable headwinds from enhanced regulatory requirements and capital requirements. We are also investing heavily to meet the requirement to restructure our activities so as to be able to operate successfully in the event of a future crisis. This will involve among other things, the ring-fencing of our core UK retail and commercial business as well as the creation of a US intermediate holding company.

Significantly, we will also be forced to absorb the burden of the recently increased UK bank levy on our global liabilities, which prior to this was already a significant drag on our returns, and, beyond this, it reduces the returns from our overseas activities compared with non-UK competitors.

All of this has, and continues to require, considerable management and Board attention, with consequent significant restructuring cost and regulatory fines, much of which is non-tax deductible.

Fortunately, following the severe crisis in 2012, a great deal has changed for the better. Management has made substantive progress in improving our operating performance, and in rebuilding the capital and balance sheet strength of the Group.

We have been highly innovative in enhancing the levels of customer service, and in building customer and community trust. Barclays has attained a leadership position in a number of new digital and mobile applications, with greater ease and reliability of service, principally through embracing mobile technology and by transforming much of the legacy technology and operational infrastructure and processes so as to be fit for the modern world.

There has been a particular focus on creating a high performance ethic, an enlightened culture across the Group as well as ensuring appropriate levels of conduct.

Barclays benefits from having enormous diversity, and has accrued tremendous strengths on which we can build. Our brand, which was so negatively impacted by the 2012 crisis, is recovering well. We all know however, it will take time to achieve admired status by our customers, but we are pleased with progress to date and the response from our customers.

We are very fortunate to have a leading position in UK retail, small business and corporate banking that is the traditional heritage of the firm. We also have a strong and respected client franchise in major company corporate banking, institutional banking, and in investment banking, particularly in the UK and in North America but with a reach broader than that.

At the same time we have made Barclaycard the leader in the UK cards and payments sector, and it is well-positioned and growing rapidly in its international markets.

Additionally, we have a particularly strong and growing position in Africa, particularly South Africa.

So, we do have a sound foundation in our businesses for the future, and while substantial progress has been achieved as a result of our "Transform" Programme, it is transparent that a great deal still needs to be done.

Looking forward therefore, first and foremost, in the light of the current issues in our portfolio as well as the rapidly changing external economic and regulatory environment, it is appropriate that we continue to evolve the strategy to fit the times and retain clarity on the proposition we are trying to build.

We do have a number of growth options. Unfortunately we are not able to pursue as many of them as we would wish in earnest, as we currently need to allocate significant resources to other priorities. We need to get ourselves into a position where we can pursue more of them.

Secondly, we need to advance the work on restructuring our legal entities in the UK and the US, wind down our Non-Core exposures and assets, and achieve our target capital levels.

Thirdly, we need to reposition and improve those segments across the Barclays Group, which operate below our required return. We need to take a considered view as to their prospects as well as the probability of their future success, and put in place plans and action to improve them or curtail those that are unable to be resuscitated.

Finally, we need to ensure that Barclays is an attractive investment proposition going forward. Currently we are still trading below book value and with a dividend level less than we would wish. We therefore remain a recovery proposition for shareholders that we need to see through. We need to complete this phase and move to a sustainable long-term proposition that has an appropriate balance between dividend yield and EPS growth. This would require us to produce free capital and cash flow for dividends and investment. Recently, since below the line costs broadly offset our above the line operating profit, we have so far been unable to secure such a position satisfactorily. We therefore need to get the errors of the past behind us, to achieve a satisfactory rate of revenue growth, greater cost discipline and a more dynamic reallocation of capital.

So progress continues, but there is much to do. While the challenge we face is formidable, and not to be underestimated, bringing Barclays to the level of success to which we aspire, is important, not only for shareholders, but also to our customers, our people, the societies in which we operate, and to the industry as a whole where we play such a leading part.

You can be assured that the Board, Antony and I are fully committed to harnessing this opportunity for shareholders. Speaking purely personally, and with the confidence that comes with familiarity with the situation, as well as with having dealt with a number of similar situations in the past, I am optimistic of the outcome.

John McFarlane

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