BARCLAYS

11 May 2010

UBS Conference

1. Good morning.

2. I start by thanking our hosts, UBS, for inviting me to speak today.

3. I intend to cover **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.**

[Pause]

4. When I stood on this stage a year ago…

5. …I said that whilst it seemed to us that the worst of the **crisis in the banking sector** was behind us…

6. …such was the slowdown in **the real economy**, that 2009 was going to be another difficult year for the industry.

7. By any measure, **it was.**

8. The terrible events of 2007 and 2008, and **the collapse of confidence** that they precipitated…

9. …fed directly into a crisis **in the real economy in 2009**…

10. …and a **recession more severe than anything we've seen for nearly 100 years**.

11. The steps taken by governments around the world in 2008 and 2009 were **wise, decisive** and **necessary**…

12. …and helped **avert a recession even more severe**.

13. Because of these circumstances, I also said last year that every management team in the industry **was heavily focused on the short-term.**

14. **That remains the case today.**

15. **The events of the past days** explain why.

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

17. Governments across **the developed world** are faced with anaemic growth; high fiscal deficits; and growing debt burdens…

18. …whilst governments across **the developing world** are experiencing moderate growth; surplus savings; and signs of growing inflation.

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

20. Adjusting those imbalances will necessitate **difficult decisions**…

21. …**and time**.

22. Such confidence as has returned **is still very fragile** and the events of last few days show it remains so.

[Pause]

23. Much attention has been directed at determining **the causes of the crisis**…

24. …and putting in place **changes that will ensure that such a crisis never occurs again**.

25. While the relative weights of causality will be debated for a long time…

26. …there appear to me to be **three things** on which most people agree.

27. **First**, the banking industry played a role in the confluence of factors that led up to the crisis.

28. This industry got many things wrong…

29. …and has lessons to learn, many of which, I believe, are already influencing bank behaviours.

30. It concerns me particularly that **trust with customers** has been badly damaged.

31. Banks which recognise the need to rebuild trust, and which are able to do so…..

32. ……will be in a strong position **to take share** in the future.

33. **Second**, without the authorities having taken decisive steps to restore confidence…

34. …the banking system **would have collapsed**.

35. Even those banks that did not take capital from their government clearly benefited (and continue to benefit) from those actions.

36. I understand entirely the public anger that the bailout of the banking system here and in the UK has generated…

37. …particularly at a time when banking profits are returning…

38. …yet much of the general economy is still suffering from the recession.

39. History shows us that a recovery in the financial economy is very often the pre-cursor to recovery in the real economy.

40. For that reason, it is a healthy phenomenon, albeit, at the moment, an unpopular one.

41. **The third point** on which everyone agrees is that such a crisis must never happen again.

42. Some fundamental things **must change** in the banking industry.

43. **The foundations of that change will, I believe, include the following requirements**:

- higher Core Tier 1 capital;
- higher risk weightings on certain activities;
- higher capital deductions;
- lower leverage;
- higher liquidity; and
- a new remuneration architecture.

44. The authorities are consulting on many of these things at the moment…

45. …with the aim of **agreeing changes** by the end of 2010.

46. 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.

47. At Barclays, **our core Tier 1 ratio** stood at just under 10% at the end of the first quarter.

48. We hold **surplus liquidity** of over £150bn.

49. Our **adjusted gross leverage** stood at 21x (down from 33x at the end of 2008)…

50. ….and **our compensation architecture** has evolved to reflect the recommendations and requirements of the G20 and the Code of Practice established by the FSA.

51. But we must (and we do) support **the direction of change**…

52. …whilst reinforcing the need to recognise, and apply, **two important principles**.

53. **First**, we must have **consistency**.

54. Banking is a global industry because the interests, and the needs, of many clients have globalised.

55. Banking risk has globalised too.

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

57. Consistency, however, does not imply homogeneity.

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

59. But the only framework which will create much greater resilience in global financial markets is a framework that is internationally consistent.

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

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

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

63. These factors make it imperative that…

64. …as the authorities model the impact of the aggregate reform package on the global economy (and start to implement exit strategies from the fiscal and liquidity programmes they have put in place)…

65. …they take careful account of how their reform implementation timetable **would best serve economic recovery.**

66. In an environment of such complexity and such severity, and with so many reforms being mooted…

67. …we need **absolute clarity** on the end to which greater resilience in the financial system **is aimed**.

68. That end must be: **sustainable economic growth and jobs**.

69. The decisions taken relating to the required reforms **must create the means of delivering that end**.

[Pause]

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

71. 2009 was a year of **record income**…

72. …**strong profits**…

73. …**less risk in the balance sheet**…

74. …**and lower leverage**.

75. In the areas of **capital** and **liquidity**…

76. …we made good progress, as I have mentioned,…

77. …in anticipating the requirements of central banks and supervisors…

78. …and thereby positioning us well to accommodate **the further changes that are coming**.

79. On the strategic front, we did the **BlackRock** transaction.

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

81. We acquired **the credit card business in Portugal**.

82. We entered **a joint venture in life assurance** in Spain, Portugal and Italy **with CNP**…

83. …and we acquired **Standard Life Bank** in the UK.

84. Meanwhile, we created equity by **profit generation**…

85. …and strengthened capital ratios by managing the balance sheet tightly.

86. We put the pursuit of **returns** before **growth**.

87. We have used **our expanded retail distribution network** to gather deposits…

88. …improving **our loan-to-deposit ratio**.

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

90. We have, over the last two years, been seeing something that I've seen several times in my banking career…

91. …and that is the **asymmetry of income and impairment cycles**…

92. …between our capital markets business and our retail and corporate banking businesses.

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

[Pause]

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

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

96. Compared with the same period last year…

97. …Group profits on a headline basis **increased 47%,** to £1.8 billion.

98. If I adjust for the impact of acquisitions and disposals, and for own credit, to give you the best like with like comparison…

99. …**our profits rose 90%.**

100. Group income **increased 4%,** to £8.1 billion.

101. Impairment **fell by 35%**, to £1.5 billion.

102. Profits in **Global Retail Banking were broadly stable**, at £403 million...

103. …which I'm pleased with, given the **ongoing squeeze in the liability margin**.

104. **Bad debt charges in GRB** were **down considerably** over the fourth quarter of 2009…

105. …driven in particular by improvements in **UK Retail Banking** and **Barclays Africa**.

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

107. I'll comment on **Barclays Capital** in a bit more detail than the other businesses, because I know it's a subject of great interest to our shareholders.

108. Barclays Capital's net income was £3.5bn, **an increase of 37%...**

109. …and profit **increased 62%** to £1.5 billion.

110. 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 as we expected.

111. **We are encouraged by our Q1 performance at Barclays Capital**.

112. There has been much focus by the market, since we made our Interim Management Statement ten days ago, on **top line income** here.

113. Any comparison based solely on this measure of performance **ignores business mix differences**…

114. …and does not address **the critical issue of the amount of risk we are taking.**

115. We have not chased income by adding risk in Q1.

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

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

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

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

[PAUSE]

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

[Pause]

121. So, as we look forward, **where are we focused**?

122. On the same three simple, but important objectives that have guided us throughout the crisis…

123. …**staying close to customers and clients**…

124. …**managing our risks**…

125. …and **maintaining strategic momentum**.

126. In the area of **staying close to customers and clients**…

127. ...I believe that the steadiness of our profit performance during the crisis **is largely attributable to the diversification of income that we have worked so hard in recent years to achieve**.

128. Income, of course, is **a good proxy** for the quality of customer and client relationships.

129. **High** levels of **income** shown on the chart on screen now…

[RLB slide on trends and bad debt overlay]

130. …**have enabled us to absorb a significant** increase in write-**downs and impairment**.

[Pause]

131. Turning to **"managing our risks"**…

132. …risk management has been one of the principal drivers of differentiation in bank performance over the last few years.

133. Our risk management **was subjected to a further vicious test during 2009**.

134. 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.

135. We said at our results announcement this February…

136. …that although we might see further deterioration in some specific areas…

137. …overall, the worst of the impairment cycle appeared to be behind us, and that we had seen the turning point.

138. So in 2010, we said we expected a moderate decline in impairment year on year…

139. …but probably not as fast as the 20 percent drop we saw from the first half to the second half of 2009.

140. How does it feel three months later? Well, impairment in the first quarter of 2010 **continued to trend better**…

141. …with total impairment charges representing a loan loss rate of **112 basis points** on an annualised basis…

142. …compared with **135 basis points** for the full year 2009.

143. **We continue to expect an overall improvement** this year…

144. …and our view is that that improvement will be **slightly better than the guidance we shared in February.**

145. **But the greatest strategic risk for us**...

146. …is the uncertain outlook **for regulatory reform**.

147. It is a risk we must try to manage by being heavily engaged in the discussions…

148. …and we **shouldn't be fatalistic** about it.

149. Some commentators continue to think that the reform agenda could require **the deconstruction of large, universal banks**.

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

151. Indeed, there has been no correlation at all between "failure"…

152. …and big or small, narrow or broad, domestic or international.

153. We see big banks as **risk diversifiers**, not **risk aggregators**.

154. But we know that, if our view is to prevail – and I think it will…

155. …then governments and supervisors need to see the big banks **adopting a responsible attitude towards capital, liquidity, leverage, derivatives, remuneration and disclosure**.

156. As I said earlier, reforms in these areas are under consultation by the authorities now…

157. …with a view to agreeing the changes required **before the end of this year**.

158. We will need to accommodate such changes as are finally enacted over the coming years…

159. …and we have the ability over that period to **take mitigating action**.

160. We have sought throughout this crisis to anticipate the direction of changing regulatory requirements….

161. …..and we will continue that practice.

[Pause]

162. Turning to our third objective, **"maintaining strategic momentum"**…

163. Barclays strategy has been **stress-tested over the last three years**, and we think it's withstood that test quite well.

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

165. Despite the regulatory uncertainty that I just described, our strategic flight path **remains very clear**.

166. This is summarised on the slide on screen now.

167. You will see that it includes **specific objectives** for Barclays Capital, GRB's international activities, Barclaycard, Barclays Corporate, and Barclays Wealth.

168. Let me briefly walk you through each of those.

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

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

171. in that context, we created Global Retail Banking last November…

172. …because this structure creates the best alignment between our specialist retail capabilities and the needs of this customer segment.

173. We have significantly grown our retail banking customer footprint over the last three years.

174. I've asked Antony Jenkins, the Chief Executive of GRB, to push that strategy forward…

175. …strengthening the UK franchises…

176. …but increasing the ratio of non-UK to UK business…

177. …with particular emphasis on creating critical mass in markets where we already have a greater presence.

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

179. I acknowledge that we were too aggressive in our approach to business expansion in certain Emerging Markets.

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

181. We must convert the investment in people, in customer recruitment, and in sales outlets…

182. …which has driven very good progress in the income line, into sustainable profits, and we think we can.

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

184. What are our further strategic objectives?

185. **Third**, to continue to diversify Barclaycard…

186. …where the number of customers outside the United Kingdom now exceeds the number inside the United Kingdom.

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

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

189. When we did, we placed it alongside Barclays Capital to form Corporate and Investment Banking.

190. 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.

191. As an illustration of that opportunity, let me share an energising fact.

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

193. This is a big opportunity.

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

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

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

197. Execution of that plan is now well underway.

[Pause]

198. **One final comment on what you can expect from us going forward**, which relates to **dividends**.

199. Given the regulatory uncertainty, it would be imprudent for us to move the needle on dividend significantly.

200. But, subject to that caveat, which I hope our shareholders understand…

201. …our dividend policy is intended to be **progressive relative to a 2009 annualised dividend rate of 4.5 pence per share**.

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

203. …which we will pay **on 4 June**.

[Pause]

204. As we look forward, we understand very clearly that the environment is, and will remain, **difficult and turbulent**.

205. While we expect conditions will continue to improve, **that is not a certain outcome**.

206. We remain vigilant.

207. But, as I said to you last year, we must not, and will not, allow this uncertainty **to immobilise us**.

208. We must, and we will, in the ways that I described earlier, **maintain our strategic momentum.**

209. **This will generate profit and dividend growth over time**.

210. I expect that our customers and clients will remain active, **in part because of the uncertainty, just as they were in the first quarter.**

211. **We must be ready for them when they call on us**.