



“Barclays delivered a resilient performance in 2007, with profits broadly in line with the record prior year results. The strength of our diversified businesses gives us confidence for the period ahead”

Barclays delivered a resilient financial performance in 2007 in a year of contrasting market conditions. The excellent results of the first half were achieved in a relatively benign environment; in the second half we were not immune from the impact of the credit market turbulence, but profit before business disposals for the year still increased 3%. I am pleased to report profits again above £7bn, which is well ahead of the average level of the previous three years.

At a time of significant market turbulence, it is important to be clear and confident about strategy. The strategy of Barclays is to achieve superior growth through time by diversifying our profit base. The precondition of successful growth is relevance to customers. We seek to maximise the alignment between the sources of growth in the financial services industry (in particular anticipating what customers want and need) with what we have in Barclays (in terms of brand, capability and physical footprint). We recommit to our strategy following our bid for ABN AMRO, and in the light of the market volatility and because of our confidence that our strategy offers the best route to strong growth in the years ahead.

The structure of the Group, which comprises two business groupings, Global Retail and Commercial Banking ('GRCB') and Investment Banking and Investment Management ('IBIM'), is designed both to enable us to be well positioned for the significant growth which we anticipate in the global financial services industry and to help us serve customers and clients well. We continued to invest heavily across the Group in 2007, increasing the number of employees who serve customers and clients and developing our distribution networks.

In IBIM I believe that we handled well the stress test of market turbulence in the second half of 2007. Both Barclays Capital and Barclays Global Investors ended 2007 with profits ahead of 2006, which was a year of rapid growth and record profitability for both. We have benefited significantly from the business diversification that we have pursued in recent years: the development of capabilities by Barclays Capital in commodities, foreign exchange and equity products enabled us to deliver excellent income growth in those areas. The cost flexibility that we have built into the business model here has also served shareholders well, enabling us to reduce expenses year on year, and improve the cost:net income and compensation ratios. In Barclays Global Investors, iShares' assets under management grew over \$100bn to \$408bn, and this growth illustrates the significant diversification of Barclays Global Investors earnings base that we have engineered in recent years. Meanwhile Barclays Wealth is making good progress towards the achievement of its profit goal of £500m in the medium term, benefiting as it is from proximity to the structuring and manufacturing capabilities of Barclays Capital and Barclays Global Investors.

We are building significant momentum in GRCB. In particular, we have been growing distribution to create a much broader business base for the years ahead. During 2007, we opened over 600 new branches and sales centres outside the United Kingdom, increasing by over one third the number of distribution points across these parts of our GRCB business. This growth is feeding through powerfully into activity levels. Income increased 28% in International Retail and Commercial Banking – excluding Absa in 2007. Absa performed well, including delivering on its synergy target 18 months ahead of schedule.

In UK Banking, we delivered a further two percentage points improvement in our cost:income ratio, excluding the impact of the settlement on overdraft fees, bringing the total to eight percentage points improvement over three years compared with our target of six percentage points. The turnaround of UK Retail Banking continued during 2007, with strong income growth in core product areas, including mortgages. We have announced our intention to reduce UK Retail Banking's cost:income ratio by a further three percentage points over the next three years. In Barclaycard, we have made excellent progress towards our goal of re-establishing a leadership position in the United Kingdom and in the aggressive expansion of our International Cards business. Profits in Barclaycard grew strongly in 2007 as we reduced the impairment charge in the UK, and moved Barclaycard International, including Barclaycard US, into profit.

In reviewing our use of capital and assets, our principal focus has been on the risk weighted balance sheet rather than the nominal balance sheet. Whilst we monitor internally a range of different ratios, our publicly expressed target has been to maintain a ratio of Tier 1 capital to risk weighted assets of 7.25%. At the end of 2007 we were comfortably ahead of that target under both Basel I and Basel II measurement bases. Risk weighted asset growth in 2007 was 19%, a brisker rate than in recent years reflecting in part the syndication constraints of the second half of the year. We expect the rate of growth in risk weighted assets in 2008 to be slower than that of 2007.

We have increased the dividend by 10% to 34p (2006: 31p), which includes a final dividend of 22.5p (2006: 20.5p). The maintenance of our policy of growing dividends broadly in line with the rate of underlying earnings over time reflects the Board's confidence in the future. Our dividend remains more than twice covered by earnings, which we believe is consistent with the funding requirements of our organic growth plans.

We have announced new multi-year performance goals. These are designed to stretch us, and we see them as reflective of the potential that exists within our businesses and our people. As in 2003, when we last set new goals, we aim to achieve significant growth in economic profit over the next four years and thereby to deliver top quartile Total Shareholder Return (TSR) relative to our competitor peer group.

Over the last four years Barclays achieved a cumulative total of £8.3bn of economic profit, against a target range of £6.5bn to £7.0bn. Despite exceeding our economic profit goal by some way, we ranked in the third quartile of our peer group in terms of TSR which was a disappointing outcome.

Our new goal is to generate a cumulative total of between £9.3bn and £10.6bn of economic profit between 2008 and 2011. This represents an annual growth rate in economic profit of 5% to 10%. We estimate that if we achieve the upper end of the range, we will also achieve our goal of top quartile TSR relative to our peer group.

I am pleased to report that our strategic collaboration with China Development Bank is off to a good start. This is an important part of our long term plans to develop a more significant presence in emerging markets, particularly Asia where group profits more than doubled in 2007, and I look forward to reporting to shareholders on the growing returns that we will generate from this relationship in the coming years.

This has been a challenging year for our staff, and we have them to thank for delivering the results we have achieved despite multiple distractions in difficult market circumstances. I am proud of their commitment to putting our customers first and I am confident that we enter our new goal period with a team as good as any in the banking industry.

What is the outlook for 2008? We see another year in which global economic growth will be 4%, or something close to that. The emerging economies account for about a third of global GDP, but they account for two thirds of global GDP growth and they continue to perform strongly. However, in many economies of the developed world, there will be a slow-down, and in particular we expect economic growth in the UK and the US to be below the trend of recent years. In an environment such as this we will have to be disciplined in our risk management and rigorous in our approach to lending. But our experience of 2007 gives us confidence, and we enter 2008 with a strong capital base, a consistent strategic direction, a well diversified set of businesses and significant opportunities for growth in the medium term.



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