

Group Finance Director's review



“Barclays performed very strongly in 2004 delivering record profit before tax, up 20% at £4,603m. There was good momentum across all the business divisions and broadly based income growth. The results confirm that our strategy is delivering.”

Naguib Kheraj, Group Finance Director

Profit before tax at £4,603m was up 20%. Return on average shareholders' funds was 19% and the total dividend payout rose 17%. Earnings per share increased 21%. Economic profit¹ was up 32%, well ahead of our goal and a reflection of tight capital management as well as good business performance. Our capital position remained healthy, with a tier 1 ratio of 7.6%. Income rose 12%. This increase was broadly based and was a key driver of the Group's strong performance. We continued to invest heavily and this was reflected in the costs which were 15% higher. Provisions fell by 19%, reflecting a sharp fall in non-performing and potential problem loans as well as good asset quality.

Business Performance²

There was good growth in profit before tax across all our business divisions with momentum in the core UK businesses and in our global product businesses. Our increasingly diverse and distinctive business mix is well positioned for future growth.

UK Banking grew profit before tax by 9%, driven primarily by a very strong performance in UK Business Banking, where profit before tax was up 19%, and broadly flat profit before tax performance in UK Retail Banking. At a seminar for investors in October 2004, UK Banking committed to a goal of reducing its cost:income ratio by 2% per annum for each of the three years 2005, 2006 and 2007.

UK Business Banking performed strongly with good income growth, up 8%, tight cost management and very good risk management accentuated by one large recovery.

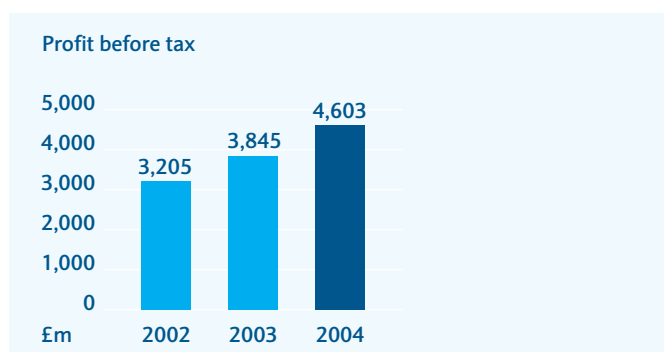
In **UK Retail Banking** the focus in 2004 was on restructuring the business which included investing heavily in additional customer facing staff, upgrading branch management and investing in technology. There were encouraging signs of progress in 2004 with good balance growth in current accounts, premier and small business but a weaker contribution from mortgages where the impact of a decline in the back book, rising base rates and a fall in early redemption income impacted its contribution. Costs increased 3% with almost half of the increase attributable to the new regulatory environment, particularly in the mortgage and general insurance businesses. Provisions fell 44%, reflecting the overall quality of the loan portfolio but also a release of provisions in the mortgage business.

¹ Economic profit (EP) is defined as profit after tax and minority interests plus certain gains (and losses) reported within the statement of total recognised gains and losses where they arise from the Group's business activities and are in respect of transactions with third parties, less a charge for the cost of average shareholders' funds (which includes purchased goodwill).

² The analysis of results by business includes goodwill amortisation. This differs from that included in the results announcement dated 10th February 2005, where the analysis of results by business excludes goodwill amortisation.

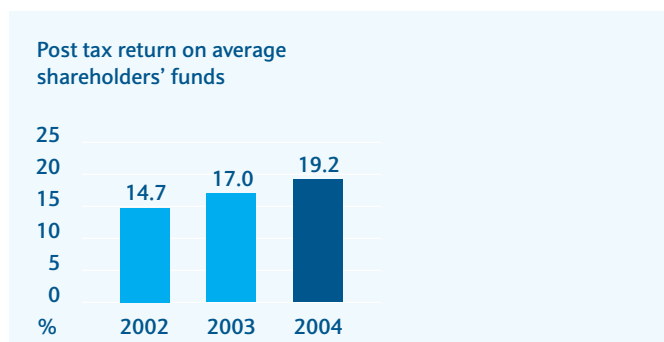
Dividend per share increased 17%

Earnings per share increased 21%



Profit before tax in **Private Clients and International** was up 60%. The improved performance in this division reflected the benefits of prior year investments – both organic and by acquisition – helped by stronger markets. This included a significantly improved performance from the closed life assurance activities.

Profit before tax in **Private Clients**, for the ongoing business, increased 42% benefiting from strong income growth and good cost control. The integrations of Charles Schwab Europe and the Gerrard business progressed well. In **International**, profit before tax increased by 14%. This represented good progress across all geographies: Africa; Spain; Portugal; France; Italy; and the Caribbean. The merging of Banco Zaragozano with Barclays Spain to create one Spanish business is well ahead of schedule and there has been a very good response amongst the Banco Zaragozano network to Barclays products.



Barclaycard delivered profit before tax growth of 5% in a year where volume growth more than compensated for the impact of successive interest rate rises and intense competition. Income growth was 6%. There was a high level of investment in both the UK business and internationally, managed within cost growth of 6%. Performance was strong in our multi-branded business such as Monument and FirstPlus. **Barclaycard International** delivered a profit of £8m (2003: £4m) despite absorbing significant ongoing investment. The acquisition of Juniper was an important strategic move into the US credit card market.

Barclays Capital had another record year, with profit before tax up 25%. Income grew by 24%, reflecting the return on investment in prior years. Client activity was up sharply, leading to good volume growth in both primary and secondary markets. A significant level of investment for future revenue growth was funded by the business and reflected in costs which grew 37%. Approximately 50% of the cost base is variable and despite the significant growth in staff numbers, income per head remained broadly flat.



Barclays Global Investors (BGI) had another excellent year with profit before tax up 85%. Profits have more than quadrupled during the last three years. Income grew 33% and assets under management were £709bn (2003: £598bn). BGI continued to diversify its product range and in particular made significant advances in exchange traded funds (iShares) where it is the market leader.

Capital Strength

Our capital position and strong credit rating are sources of competitive advantage. At the end of 2004, our risk asset ratio was 11.5%, and our tier 1 capital ratio was 7.6%. This strong capital

position enhances our ability to pay dividends and invest confidently in business growth. When we look at the balance sheet, we focus capital management on five areas: maintaining our double A credit rating; generating sufficient capital to support weighted risk asset growth in the business; financing corporate activity, delivering dividend growth; and using share buy backs to manage any excess capital. In 2004 we bought back almost £700m of stock.

Goals

2004 marked the start of our new four-year goal period that will operate for 2004 to 2007 inclusive. Continuing to make public our stretching goals has had a positive impact across Barclays.

Our primary goal is to achieve top quartile Total Shareholder Return (TSR) on a sustained basis, relative to our peer group.¹ TSR is the sum of share price appreciation and dividends treated as if reinvested in Barclays shares. We believe that relative TSR is the most effective and relevant way of measuring Barclays value creation. It aligns the interests of employees with those of shareholders. At the end of 2004, Barclays was top relative to its peer group of international financial services comparators with a TSR for the year of 23.1%. This was almost double the average for UK banks and for the FTSE 100 market Index.

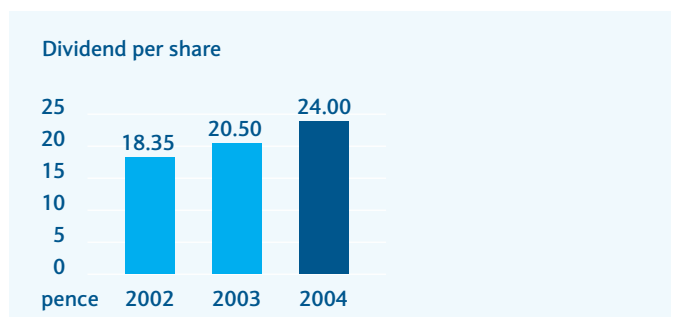
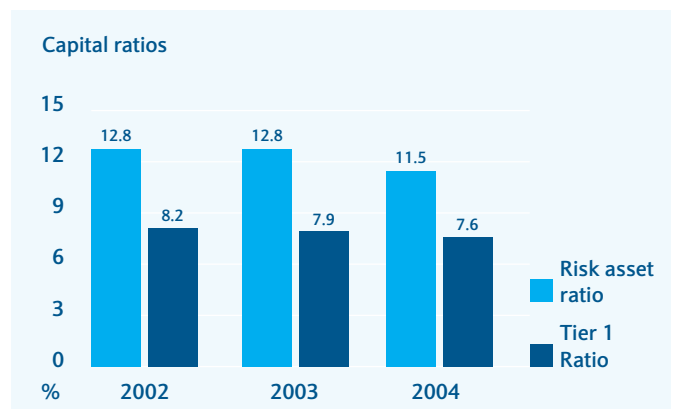
We are also targeting a compound annual growth of economic profit of between 10% to 13% for the four-year goal period. We believe that achieving this level of growth in economic profit should enable us to deliver our primary goal of top quartile total shareholder return. In 2004, economic profit increased by 32% positioning us well ahead of the goal.

Outlook

Barclays performed strongly in 2004 and there is good momentum from the strong balance sheet growth and expansion in assets under management. We have also been investing heavily and feel confident about our ability to convert such investment into future profit growth. We therefore plan for 2005 to be another year of progress.

Naguib Kheraj
Group Finance Director

¹ TSR above is calculated on a gross dividend reinvestment basis.
² Peer group for 2004: ABN Amro, BBVA, BNP Paribas, Citigroup, Deutsche Bank, HBOS, HSBC, JP Morgan Chase, Lloyds TSB, Royal Bank of Scotland and UBS.



Total shareholder return for the year 23%