

**TO:** The Directors  
**FROM:** John Varley  
**DATE:** 15 September 2008  
**SUBJECT:** LONG ISLAND

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We mentioned at the telephone meeting of the Board on Sunday evening that we would seek to pursue vigorously opportunities coming out of Long Island going into Chapter 11 in the US and into administration elsewhere around the world.

As we anticipated, Bob was contacted overnight by the Long Island leadership team asking whether we might be in a position to acquire large parts of the business from the administrators; and that if so they would seek to protect as much of the business as they could as a going concern. We received assurance from them that this was a conversation taking place only with Barclays and we have no reason to doubt that assurance although, of course, Long Island staff are being raided freely around the world as I write.

We are urgently dimensioning what we think may be available. The core would be the US broker deal (securities trading, investment banking and wealth management). We are assessing what this might imply in terms of balance sheet take-on and associated WRA's and capital requirements; and people take-on. We are also seeking to form a view – which is much less scientific now that there is no Long Island share price - as to the consideration that we might be prepared to pay to the administrator.

We have had contact with the US authorities today and they are, as you would expect, very supportive of this initiative. That support now extends to other stakeholders such as the Mayor's office and the State Governor's office who are seeking to ensure that the job losses from the collapse of Long Island is minimised. All of this is serving to create some early but significant momentum around the opportunity.

I can anticipate your question about the likely attitude of the UK authorities! I have been in touch with the FSA and the Bank of England (Hector Sants and John Gieve) and they are aware of what we are looking at and why. On Long Island 1 (if I can so describe it) the ultimate decision lay with the FSA and that would remain the case for Long Island 2. Given that Long Island 2 implies significantly less risk and significantly less capital, the FSA's reaction was to say that they have defined the capital corridor down which they expect us to walk and that their assumption (a reasonable one on the face of it) is that given that they were satisfied that Long Island 1 was manageable within the corridor, they presume that Long Island 2 would be more easily manageable within the corridor because of the lower risk. They continue to raise the subject of liquidity saying that, had we got there on Long Island 1, in the critical path to their approval would have been the requirement (coming mostly from the Bank of England) that appropriate assurances as to the availability of liquidity were given by the FED. This would remain a requirement for Long Island 2.

I told Hector Sants that Callum McCarthy should expect a call on this from his counterparts because we were already being asked whether, if we wished to proceed, we would get a green light or a red light from the UK Tripartite authorities.

If Long Island 2 develops, it is likely to develop quickly, and the purpose of this note is to give you some initial briefing as well as to say that if we make progress overnight, we will arrange a Board telephone conference on Tuesday to brief you, and to discuss further.

JOHN