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Barclays PLC

Barclays Corporate Banking Presentation

Speech and Analyst Q&A Transcript

Antony Jenkins (Group Chief Executive)

Good evening everybody and welcome.

This is the first of a series of seminars that we're going to run on our individual businesses. We took a decision after the investor day, on February 12th, that we didn't want to immediately roll into business by business presentations, because I think it's important that you have enough time with the management teams to be able to have good interaction and ask questions. This is really about how we lay out the action plans to become the 'Go-To' bank for all of our stakeholders, and what I'd like to do now is just talk about the progress the we've made in the first part of this year.

Last week we published our Q1 Interim Management Statement; this was the first set of results that we've presented since we published our Purpose and Values, and announced the Transform programme, and I'm pleased to say that we've made a strong start to the year. Overall, we've built a good momentum across the business, and are also making very good progress on embedding our values and in delivering our Transform plans.

For the first quarter of 2013 adjusted profit before tax was down 25% to £1.8 billion, when compared to the same period last year. This reflects non-recurring costs, such as those associated with executing the first stage of Transform. Excluding these costs, adjusted profits would have been up 6%.

We are on track to execute the £1 billion programme of restructuring and investment for 2013, which we announced in February. Half of the cost was taken in the first quarter. Total costs were down 4%, excluding this cost to achieve, as we reduced non-performance costs by 2%, and performance costs by 10%.

We are making good progress towards achieving our absolute 2015 cost target of £16.8 billion, excluding the £700 million of cost to achieve, the mid 50s cost to income ratio of the Group, and the mid 30s comp to income ratio within the Investment Bank.

We strengthened our capital position with our Core Tier one ratio up to 11%, and our Basel III fully loaded Core Tier one ratio was higher by 20 basis points, at 8.4%.

I have also announced a number of organisational changes in our Corporate and Investment Banking, Wealth and Americas businesses. These changes will accelerate the delivery of our plans, and ensure that we have the senior team in place to build the 'Go-To' Bank.

When we presented our 2012 results and our strategy on 12th February, we also committed to increase transparency, and to this end we published a significant amount of new detail as part of our Annual Report, especially on funding and remuneration. We'll provide full updates on our progress against our Transform commitments, beginning at the half year. Crucially this was something that many investors said to me was important to them. We have also reallocated more elements of the Head Office costs to the businesses, so that the aggregate of those businesses results is more closely aligned to those of the Group, including the Group Return on Equity.

We plan to ensure that each of our businesses delivers a seminar before the end of the year, and the Investment Bank will be the next one, on June 28th. These are all important parts of our commitment to increase transparency, and will give you more detail on how each business will contribute to Barclays becoming the 'Go-To' Bank, and how we'll achieve our 2015 financial commitments at the business unit level. They will also give you an opportunity to meet our senior management teams, the people accountable for delivering against the commitments.

Of course these seminars will be an evolving process, and we're very keen to get your feedback on them, so we can keep improving the format and content.

So we're here today to talk about the Corporate Bank, and the Chief Executive, John Winter, will take you through the detail of that business in a moment, but I'd like to quickly highlight three points about Barclays Corporate. This is a very strong turnaround story, from a loss of £255 million in adjusted PBT in 2010 to a profit of £460 million in 2012.

I like to think of the UK Corporate Banking as a hidden gem, masked by some of the legacy issues that we've experienced in Europe and the rest of the world, but underneath it there is a very important core business for Barclays, a business that has very attractive annuity and return characteristics. Finally, we have a highly experienced and proven management team, who have consistently delivered what they said they would do, and I'm very confident that they're going to deliver on their Transform commitments.

I'm now going to hand over to John and the team, and I hope you enjoy the evening and the presentation. Thank you very much indeed.

John Winter (Chief Executive Officer, Barclays Corporate Banking)

Thank you, Antony. Good evening everybody and thank you for being here and joining me tonight. Thank you also for your interest in Corporate Banking. I'm very excited about the business. It's been quite a journey we've been on in the last several years, and I'm really pleased to have the opportunity to explain to you a bit about what's going on, and take you through where we were, where we are now, and where we're headed.

Before I dive into this story, let me just tell you briefly a bit about myself. Before moving across to run Corporate Banking three and a half years ago, I spent 25 years in investment banking; I started with Merrill Lynch in 1985, in New York, came to London in 1992. I was supposed to be here for two years. 21 years later I'm still… Actually, I'm no longer looking for that return plane ticket.

I joined Barclays in 2001, spent the first nine years in the Investment Bank, running Investment Banking in EMEA, and at the end of 2009 I was asked to move across to run Corporate Banking.

So, what is the Corporate Bank at Barclays? As Antony said, we're several years now into a transformation process, so let me just tell you a bit about where the business is now, and begin the story.

At Barclays, when we segmented the business back in 2010 we said, clients that have turnover above £5 million, we'll call those Corporate Banking clients; below that stay in Retail. So we've got about 40,000 clients, and about 13,000 staff, in 27 countries, but interestingly enough, those 27 countries are primarily in the developing markets. There are several in Africa, places like India, UAE and so forth, so it's not just a UK/European story. We have much more mixed geographic footprint.

The business is meaningful in the context of the group, roughly 10% of the Group's income, over £3 billion of revenues, and, as Antony said, £460 million of adjusted PBT in 2012.

So that's where we are now, but to really understand the story of what's going on in this business and where we're headed, it's helpful just to have a bit of context about where we started. This is a slide virtually identical to the one that I used with the Board in my first presentation in April of 2010. We've taken the legacy Commercial Banking bits out of what used to be called GRCB, Global Retail and Commercial Banking, and we've combined those with what has historically been the UK Commercial Bank and put those businesses together globally, and called it the Corporate Bank. What we found is we had a solid but neglected franchise in the UK, and outside the UK we largely had sub-scale money-losing businesses. In addition, the product capabilities we had, outside the UK in particular, were under developed, and primarily debt-led. We were basically lending money with very little product mix all over the world.

The clients we had were primarily SMEs. It was the exact opposite base of what the Investment Bank was focused on. It was very small companies. In Russia, for example, it was restaurants and newsagents and so forth, very tiny SMEs, and to a large extent they were focused in the riskier sectors. We had a huge percentage of our loan book in Iberia, for example, concentrated on property and construction.

The infrastructure we had was outdated, almost prehistoric, in some cases; dial-up modems, and so forth. The control environment was fragmented, and our servicing capabilities were inconsistent.

Anyway, so what did we do? We came up with a strategy to turn the business around, and the strategy we came up with is working. We went from a big loss in 2010, an adjusted PBT of £460million last year, £715 million of PBT turnaround, all in all a decent performance. Clearly, though, as we'll see in a moment, the ROE is not acceptable. It's getting better, but it's not acceptable yet, but we did manage to do this turnaround without piling on risk. We've actually taken a lot of capital out of the business; a lot of risk-weighted assets are out; £77 billion back then, to £71 billion in 2012.

The first quarter of 2013 is very encouraging, £183 million PBT. If you take out the cost to achieve, in fair value adjustments, that's actually a 51% increase on Q1 2012, it's three times what we made in PBT in the fourth quarter of 2012, so a solid performance in the first quarter.

So what is the strategy? What is it we've actually been doing? We came up with six principles back then that we've stuck to, religiously, and these are what continue to drive the business forward and we'll go into more of these in detail, but just to recap briefly, the number one priority we had was to strengthen the core franchise we had in the UK. It had been neglected too long. In effect, it looked to me like it had been a bit of a cash cow, really used to fund some activities outside the UK.

We really needed to rationalise the geographic footprint we had. It just wasn't clear why we were in some of the countries we're operating in. The product and servicing capabilities we had, we needed to strengthen considerably. There were very little synergies with the Corporate Banking business and other parts of the Group. We had to find ways to exploit those. The balance sheet had a large funding gap, it had what I would call some lazy RWAs in it, £1.7 billion of impairment. In 2010 we had lots of issues in the balance sheet to clean up. We had to create a cohesive culture, globally, too. Everything from retail bankers in the Middle East to trade finance experts in Spain, to lots of folks all over the UK, different cultures, never really worked together before. There was no real coherent culture, no real team spirit among the group.

The strategy we came up with we challenged hard, as we thought about the targets of Transform. Do we do we have the right strategy? Should we be doing something else? What we decided was we're on the right path; we're doing the right things. But Transform also gave us a new way to look at the business. In the Invest and Grow cell we have, global corporates, FIs and the UK franchise, £59 billion of risk-weighted assets and over £900 million of PBT, when you look at it through that client lens. The two, three and four quadrants account for about £12 billion of RWAs, of the £71 billion we have in the business last year, and nearly £500 million of before tax losses; so quadrant 1 businesses really are at the heart of the Corporate business. How quickly can we grow the businesses that we're focused on, and unwind and reposition, run down, and so forth, the legacy businesses that we're trying to exit? As you'll see, that as we continue to get those businesses pulling in the same direction the performance has been improving significantly.

Let's look at more detail at the principles we're following, what the strategy actually translates to in practice. So in the UK, what does it mean?

If you look at the first box on the left, we've taken our market share in deposits in the UK up by over 3%. As of Q1 2013 we had a record, according to Bank of England data, for Barclays, we're at 19.4%, which is a record level of lending for us in the UK. Our deposits market share has also grown.

The middle box is interesting. If you look at the blue line, back in 2010 it shows that we ranked fourth out of four of our major competitors in customer satisfaction. We got to the number one spot in the third quarter 2011, and we've managed to hang on to the number one spot ever since. I am a little worried about the trend that we see where it's tapering off more recently. I do think some of the issues that the Group has faced, some of the negative press around Barclays hasn't helped us, but I'm still very proud of the fact that we've managed to hang on to that, despite all the challenges, and what I see today is a lot of happy clients, who are continuing to be pleased with the level of service they're getting from us.

Looking at our impairment, I debated whether I should show this or not, because 30 million in Q1 2013 is an artificially low figure. There were some write backs to that quarter, and so forth, so please don't multiply that number times four to project what the impairment in the UK will be, but I think it's also, in fairness, a testament to the work our teams have done; the restructuring groups, and the efforts across risk, portfolio, product and coverage, to produce a result like that. You start to get a sense of what the potential in this business is when it really starts to fire on all cylinders.

And the progress we're making is based on a platform, which can drive sustainable growth, so 24% of all UK Corporates rank Barclays as their main bank. We have over 25,000 relationships in the UK; we added 1,300 new ones last year.

One of the things that I like the most, and I think it's one of our real competitive advantages, is over half of our clients have been banking with us for over ten years. There is tremendous depth to the quality of the client franchise we have, and the platforms that we're using to service these clients are much more resilient, and much more effective than ever been. We process 8 million transactions a day, not just for corporate clients, across the group. We are responsible for, in Corporate, £300 billion of Sterling payments alone, in addition to what we do in Dollars and other currencies. It's another £150 billion if you add those.

The network we have, we're in 66 offices around the UK, 550 relationship directors, and the products we're rolling out are winning awards and getting us a lot of kudos, so the franchise in the UK is rock solid, and that shows in the numbers. When you see the profitability in the business, it's very, very encouraging.

There's a lot of data on this slide, so cost:income ratio, at the top, down from 52% to 48% in 2013. In 2010 there were a number of one off items, which we don't need to go into detail, unless you're interested later. Adjusted PBT, £269m in the first quarter 2013; there are some one-off items in there, but again, a very solid performance, and encouragingly a return on equity over 13%. You just get a sense of what the potential in this business is, when we get it right. It's a very, very good business. It's what Antony referred to.

Let's move on to the second principle, rationalising our geographic footprint. We went through a very rigid process to assess whether we should or should not be in a number of the countries that we were in, and we came up with five criteria to assess whether it made sense to be in these countries.

Does Barclays have risk appetite for the country? Do we actually want to be a Bank - do we want to lend money? Do we want to deploy balance sheet? Does the Investment Bank have an established client base that we could be entering the market with, or do we have to hire our own origination folks and our own marketing team and build those relationships? Can we self-fund our lending activities? What I found was the countries where we had the biggest impairment were also the countries where we had the biggest funding gap, most notably Iberia, particularly Spain. And do we have competitive products? If all we can do is show up and lend, and not be able to self-fund anything else, we need to have some competitive products. What else can we have there? And do we have licences to operate, or can we easily get licences to operate?

We bought Bank Akita in Indonesia. It turns out we couldn't get an FX licence to operate, so we closed the business, £100 million in costs. We looked at our franchise in Europe, and said, why are we competing with Cajas in Spain, Popolares in Italy, and so forth? What are we doing? Clients aren't telling us this is what they want Barclays to be focused on. They want to tap into our global capabilities, not just be another domestic bank. Russia, largely a Retail franchise, 35 branches; why go pick a fight with Sparbank in Russia? So we sold that business. The Iveco JV, we had a 51% ownership of a leasing, truck leasing business with Fiat; it made no sense, losing money, a lot of impairments, lousy use of capital. In the Retail business in India it's very tough to get licences to operate at scale. State Bank of India consists of thousands of branches. We had nine. It made no sense for us to be in that business; So we've repositioned that. We've exited those businesses.

Taking all that out, rationalising that took over £200 million of income out the business, but over £1 billion of costs and impairment, several thousand staff and £7 billion of RWAs. So that rationalisation process continues.

Our situation in Europe is different, and Iberia is different. We have a lot of clients that we're exiting, but there are a lot of clients that we have great relationships with that are terrific clients and we continue to focus on, but as we rationalise this you see the number of loans we have down nearly 50%, impairment, close to 50%. Clients numbers, we've taken 5,000 out of the business are going to become a much, much lower number over the next few years. My guess is we end up below 1,000, in terms of the clients that really can benefit from the cross-border capabilities that we're building.

The Iberia business; I'm convinced the worst is behind us. It's a much more positive story, going forward. I spend a lot of time travelling to Spain in particular, and I can tell you, what I hear from clients is they're very happy; the ones we're sticking with are very pleased to have Barclays there, and we're doing a lot of good business, despite what one might think, from all the press.

The story outside the UK, though, isn't just one of shrink, reduce, exit, and so forth. We've come up with a very clear footprint, and a very clear strategy for servicing the clients of the Group globally.

So where are we now? We have Corporate Banking relationships with 58% of the 500 largest corporates in the world. We have an international network that I talked about earlier of Corporate Banking capabilities in 27 countries, many of which are some of the fastest growing countries in the world. We have a very good business in Africa. We're viewed as a major clearing bank; for financial institutions in particular, they view Barclays as a preferred provider of clearing services. It's been a very fast growing business for us. Our cross-border capabilities are starting to win much more recognition and awards for what we can do outside the UK, and we have growing synergies with the Investment Bank, which I'll talk more about in a minute.

When you look at this map, what we're doing is we're saying, clients in the US, clients in Asia, we have a light touch model that we cover those clients and deliver the capabilities we have in the UK, Europe and Africa, to that client base.

This is an important slide (13), so what is it that these clients actually want? When you're in the Corporate Banking business you can't just show up and say, I want to do your payments. You actually have to have the infrastructure in place to do it. If you're in the payments business, you can't fail payments. Clients want reliability, so what is it we're building?

We said you think of technology as modules, we have to have scalability. We build it once in the UK, we do it right, we lift and drop that into other countries, and we roll it out globally. So we're three years into the build and roll out of state of the art products in the Corporate Banking business in the UK. Last year we got responsibility for South Africa, and we started rolling out the products into South Africa that we have in the UK.

A lot of our clients here, they want to have UK be part of a European proposition, a pan-European ability to provide Corporate Banking needs, so we're doing that too. We're saying from the UK into Europe is something we can provide, and from South Africa into the rest of Africa is our proposition for that continent.

One of the things we've got for you today, at the end, is some of the technology on display, and I'd be delighted if you wanted to take a look at it. One example of that, on iPad, is what we call the iPortal. What you can do is access all of our Corporate Banking capabilities and services on an iPad. It's great. We also have something called Pingit for corporates, which is also very exciting. You can see why clients like it so much. If you take a utility company client, for example, rather than their customers mailing cheques back to them, paying their utility bills the traditional way, they can do it using our Pingit technology. There's a lot of very exciting things happening there, and you'll be hearing more and more about Barclays and the technological innovation we're introducing into the Corporate Banking space in the next year or so.

One of the other things you see from a product perspective is customers tell me all the time that they view regions as products. So when I'm in the US visiting a client, which I was recently, the client's interest is frequently in what can we do for them in Africa? The idea that Barclays can be a leading provider of corporate banking services in Africa is exciting, so the question then is what is it you're capable of doing? And our situation in Africa is much, much different than what we had in India, Russian, Indonesia.

The franchises we have, in the countries they're in, tend to be top three. In most of these countries Barclays has been there for over 100 years. We are a big deal in these economies. What we have done is take that footprint and create a corporate banking proposition from it and really make it state of the art for what our corporate clients need. As of the most recent restatement I'm now responsible for the corporate banking business in all of Africa. You will see in the numbers headcount of over 3,000, so there's a lot to do in this space. And I have yet to meet a client anywhere in the world that is interested in Africa that is not willing to talk to us about how we can help them. It is a very, very exciting opportunity for us. Meanwhile, the business is a meaningful business in its own right; nearly £350 million of revenues and £95 million of PBT from the outset.

Moving on to the next point, how do we exploit synergies across the Group? Most of us are a bit cynical of those, whether its banks or other companies, who talk about how they're going to find synergies within their own organisation. Words like 'cross-sell' get bandied around, and most of us find it never works. The plans we have are grounded in practicalities; it's happening right now. In December, Tom King, now the co-CEO of CIB, and I put out an internal note to announce an organisational structure which has global corporates as a coverage group across the Corporate and Investment Bank. And the specific plan is to do more corporate banking business with the top 1,000 corporates in the Investment Bank.

So what does that mean in practice? For example, lets take a large European oil company who three years ago we were doing very little business with - a little bit in their home market only. Today we are banking them in nine countries. Revenues have gone from de minimis to over £5 million per annum. Or a beverage company that has gone from three countries to six with a similar story of tripling revenues. With each one of these clients there's a significant number of subsidiaries that we can provide corporate banking services to. So, not surprisingly, when you look at the revenues three-quarters we make from this client base come from their subs.

And I can tell you in my 25 years in investment banking we spent almost none of it talking about the subsidiaries of clients. We were just focused on the head office, focused on senior management, but there are customers all over the place that are desperate to do business with us. On a recent trip to the Middle East I sat down with the CFO of one of our core European clients. He got out a map of the Middle East and Africa, I got out a map and we compared where his operations and his banking needs where and where Barclays has operations that could service those needs.

The idea that Barclays can be a bank and help these companies, in some cases in some really challenging parts of the world, clients love; they think it's fantastic. It's not a question of we're giving you a piece of business and therefore we have to give another bank a different piece of business. It feels to me like we're genuinely helping them in a number of these areas. So it's really exciting, the potential is here. And the investment bankers are all over it. The enthusiasm and energy that's behind this initiative cannot be underestimated; it is really exciting.

And you see how we can do more business with our existing clients; it strengthens the relationship and increases the probability we will do more investment banking business, because we become more institutionally important to these clients. So we urge you to try hard to swallow some of your scepticism around people talking about synergies. In this case it's working.

We talk about the importance of actively managing our balance sheet, it's the fifth principle. We had all kinds of issues. We had a £20 billion funding gap 3 and a half years ago. We've closed that. We now have a funding surplus in the business. And capital, we've taken £16 billion of RWAs out of the business. I mentioned the £7 billion from exits. We also have taken another £9 billion out through management actions. £10 billion has come back due to regulatory changes that don't affect just Barclays typically, it's across the industry, but it's a very encouraging story.

We think there's going to be another significant amount of capital applied to the Corporate Bank this year and, again, these are due to things like slotting for the real estate business. The Loss Given Default, LGD, rating you have to apply against Sovereign exposures, may get raised, but those are across the industry it's not just Barclays. In the Corporate Bank the biggest issue is slotting. Real estate, for us, is not anywhere near as big a position as it is for some of our other competitors. So it's annoying but it's not, by any means, a critical factor for us.

We also talk about impairment, but just to drill into this a bit more. We have, in Iberia 260 people focused on reducing impairment. It's loan by loan, client by client and we are all over this. We have a workout team in the UK who tries very hard to restore the companies to health. Giving them the tough love medicine they need to survive rather than liquidating and foreclosing on some of these companies. So impairment is down dramatically in the last three years from £1.7 billion down nearly 50%. Very good performance in the first quarter this year, £130 million . We really feel like we've cracked the back of the impairment.

I'm not sceptical when asked if we can keep it going in Europe? When I go to Spain with my Chief Risk Officer we sit down and find we really believe we can continue to get our impairment down. We have a lot of good people working on getting that number down. So I'm encouraged. The cautionary note is in the box on the right. Our loan loss rate in the UK is well below the ten year average so we are doing a good job. We're getting some write-back as well, but at some point I'm sure we'll have further increases in impairment this year. But it looks very, very positive, as I say, at this point.

Moving on to the final principle, I mentioned this challenge we had around establishing a strong culture. And, as a manager it feels to me like the culture is improving. When I look at the business morale it is up, my folks in the UK tell me they've never been busier, client satisfaction is improving. But what else can we do to demonstrate, to measure is culture improving; that we doing a good job? One of the things we do is we look at what are the customer is telling us. If the customer is having a better experience, hopefully that's an indication that something's improving in the business.

Customer complaints are down over 55%. How do customers assess the quality of the relationship director they have? How do our relationship directors compare to other banks? Two years ago we were third, in the last couple of years we've been first. If you look at things like service outages, how often does the client's service from the Corporate Bank get interrupted; we are down dramatically in the last few years. So there are a number of non-financial metrics we try to assess, like a balance scorecard. There are other ways we can look at our performance and judge performance, not just on the basis of financial performance So this progress is a good sign.

But under the umbrella of culture it's also appropriate to talk about one of the big challenges Barclays and other banks in the UK are facing which is the issue of mis-selling of interest rate hedging products to unsophisticated clients in the UK. We took an £850 million charge last year, we reviewed that in Q1 and see no reason to change that. But it's important everybody understands how complex this process is. I have over 600 full time employees focused on this. Each one of these customers, and we think we'll end up with about 3,000 customers that are viewed as unsophisticated and potentially eligible for redress, each one of those cases generates, on average, 3,000 pages of documentation.

We have skilled persons involved. It is a very, very cumbersome process. And, you know, we're working hard. We've gotten some nice comments from groups involved; lobbying groups involved like Bully-Banks about the way Barclays has approached it. But this is difficult and it's something that we're focused on, we're taking seriously and we're dealing with. But it's going to be, I think, at least a year, in my opinion, before we can see the end of the process, realistically.

I talked earlier about Transform, how it validated the strategy, gave us this client lens to look at what we're doing and a fresh way to think about how we're approaching the business. But there's also a lot that is unlocked via Transform on the cost side. I mentioned we took £350 million of cost out of some of the exits. £250 million net, roughly, little bit less as we've invested a lot in some of the strategic initiatives I talked about in the product builds. But there is a lot more going on here and one way to think about it is that the majority of the costs that we have in the Corporate Bank are for our portion of services that are shared with other parts of the Group.

So we need to collaborate with other parts of the Group to come up with ways to get the costs down. There's no point in just shoving costs back and forth between the different clusters. So in Retail, for example, we've come up with a number of ways to reduce the amount of time our corporate customers spend using branches; it frees up a lot of resources in Retail. So just one simple example is cash being delivered to and from our clients via the branch, now we outsource it. Armoured cars go to the client, deliver the cash, pick it up. It's much more efficient, everybody's happier, we save money, Retail saves money, the client's happier, everybody wins.

I could talk for an hour about the number of initiatives we have to find ways to simply re-engineer the business to get costs out. The Transform initiative has energised that debate and really created a framework for all of us to collaborate much more around these various initiatives.

This is a slide that Antony used in his February 12th presentation and it's now been updated, given the restatements we've had in the business. So we used to say £3 to £3.5 billion of 2015 target income, now it's £3.2 to £3.7 billion. £70 to £80 billion of RWAs, now £73 to £83. Over 10% ROE, 2015; 8% is more realistic as all the costs and capital have been allocated out of Group centre.

So looking at the final slide, how realistic is it for us to get to that 8% by 2015? All the things I've talked about hopefully give you some confidence we can do that. If you look at the legacy run down that we're continuing to focus on, the opportunities in the Global Corporate and FI space, the growth opportunities we still have in the UK domestic market, I'm convinced we can do this. The first quarter is an indication we can do this.

But let's be clear, this is hardly victory. We are not going to be patting ourselves on the back saying we've got to 8% ROE. We need to keep growing. We need to keep improving at 1.5 to 2% every year, at least, hopefully more but at least that. If you just do the simple math that would get us to cover the Group's current cost of equity within five years. But as I've hopefully alluded to, there is upside in this business when we get it right. I'm confident we can do that.

So where does that leave us? And to try to sum up Corporate Banking, what have we got? We've got an excellent franchise in the UK; it's a growing franchise, it's a resilient franchise, it's awesome. We have the unique proposition in Africa; it's untested, it's new. I and my team have been responsible only for it for a few weeks but we're very excited about it and we're very excited about the reaction from clients. We are rolling out today, now, leading products and servicing capabilities. You see that in customer satisfaction. You see that in the 800 clients we've on-boarded in recent months under our new cash management platform, Barclays.net.

The investment is real; it's multiyear, we're more than halfway through it. There's many, many aspects of this business which I think are fantastic. The Transform strategy we're following is consistent with what we've been doing for several years. It's been endorsed under Antony and his leadership and we're on the right path. He's helped us expedite the strategy and we really feel confident about where we're taking the business. And I can tell you from my perspective, on a personal note I am extremely energised and excited about this business. I think there's fantastic potential in it and I really feel privileged to be given the opportunity to take it forward.

Thank you. I'd like to start now with some Q&A and I'd like to be joined, on stage, by my colleague Mark Merson. Mark is the Chief Financial Officer of Corporate and Investment Banking for Barclays.

Chirantan Barua (Alliance Bernstein)

This is Chira here from Bernstein. I have two quick questions for you, first is in terms of the product view where do you make your money? Through the presentation when you talked transaction you talked trade finance, you talked cross-sell products into Investment Bank. But it would be great if you could give us some colour around that. The second thing is in terms of your competitive positioning, just to make it a little more clear it would be great if you could give us some views around where do you stand against, say, HSBC, on one side and someone like, say, Standard Bank in Africa and South Africa who also has the kind of network in Africa? How do you position yourselves; so what's distinctive as compared to a global and local player or regional player?

John Winter

Thank you for the question. In terms of where we make money, about 60% of our revenues today come from cash and trade. Given the initiatives that I've outlined, we think that can get up over two-thirds over the planning period. So a lot of the growth we're talking about is a cash and trade story and obviously that's lower capital intensive, as well. In terms of our competitive positioning, I probably shouldn't talk about name by name competitors, but the UK, I think, is an exciting market from a competitive perspective. A couple of our competitors, I think, are struggling with legacy issues that are pretty severe. We don't have a bad book, a legacy loan book in the UK that we're trying to unwind and exit and work out.

You know, the situation I'm dealing with in Iberia, I think is a small example of what some others are dealing with in places like the UK and some other countries. Other large banks in the UK aren't necessarily focused on the UK; their interests seem to be elsewhere. So I think for Barclays we've got a great opportunity to grow here. In Africa, it's really a story on potential. We have not yet got, with the exception of some capabilities in South Africa, a world class top tier corporate banking proposition in much of Africa, but nobody else does either. It really is, in that sense wide open.

The competitors you've mentioned have got some strengths, but we've all got some similar challenges and, with the exception of Ghana Barclays is mostly concentrated in East Africa and South Africa . We have a business there with a long standing franchise and deep relationships that I think we just haven't really tapped into. So Africa is fairly wide open. What I do find is the large local players in South Africa can't provide the global reach that Barclays can. You know, we have a relationship with the parent of a lot of the subs that we deal with. My last trip to Africa I was in Zambia and Botswana and South Africa. One of the clients I met, I met in Germany, in New York, in Asia and in South Africa and, we were able to talk about the company in a way that I'm not sure a lot of our competitors really have that kind of access globally to some of these clients.

Michael Helsby (Bank of America Merrill Lynch)

Two questions, I was wondering if you could share with us what your share of cost savings are in the context of the £1.7 billion that have been outlined from the Group. You touched on it a little bit in terms of the cost savings, but just touch a little bit more and give us a little bit more colour of where you see those coming from. And, secondly, before you restated the numbers there was £371 million of revenue in the new markets bit. You've not really talked about the other countries, apart from Africa, so I was wondering if you could talk a little bit about that because it doesn't really make any money on a pre-provision basis. And what's actually happening there, what are you doing about the restructuring there and what the outlook is because obviously that's bigger than Africa, at the moment?

John Winter

Mark, do you want to take costs?

Mark Merson (CFO Corporate and Investment Banking)

Sure, I'll take the costs. Thank you, Michael. So our share of the overall £1.7 billion we see as being about £100 million to £150 million and the costs to achieve there we think will be in the region of £150 million to £200 million. And there are two types of investment and saving that we expect to reap. One, you saw us take a £37 million restructuring charge in the first quarter this year in relation to our business in Iberia where we see opportunity to rationalise the footprint, as John talked about reducing client size or numbers of clients dramatically from where we are today. That's an example of the type of activity that we still see there being substantial cost reduction opportunity for us.

And the second type of opportunity is more in terms of transforming the capabilities of Barclays Group from a technological perspective. So we do see ourselves taking advantage of the streamlining of Group-wide functions and operations. We do see ourselves taking advantage of some of the duplicative activities that we have, as well as the investments in technology which, as John's talked about, from a client service perspective which not only helps our clients to do more business with us but enables us to do that business much more cost-effectively.

John Winter

In terms of the revenue mix outside of Africa and the UK and Europe, new markets consists of quite a mixed bag of countries. The most notable is the UAE. In the UAE I still have the retail numbers in my P&L which is over £80 million; it's a significant number. Last year we also had… we still had most of the India retail businesses up until the end of the year; that was a meaningful number. It also includes Pakistan which is about £20 million. It also includes some other bits that we book locally in Singapore. So part of it is, the biggest chunk, the biggest movement in our rest of world number is the continued run down of retail.

Tom Rayner (Exane BNP Paribas)

Just looking on slide 22 the progression from, sort of, 3% ROE to 8%, the biggest driver of that is the, sort of, legacy wind down. Clearly, by 2015, if you look at what the domestic business is making you're still expecting there to be some losses coming through from the non-domestic businesses and I just wonder when you talk about the 1.5 to 2% per annum improvement in the ROE beyond 2015, how much of that is just those residual losses dropping out and how much is maybe improving profitability of the, sort of, core ongoing businesses.

John Winter

I think that the legacy drag from Europe will be relatively short lived… I'm reasonably confident we'll have positive PBT in that in 2015. The negative drag from the ROE there should be under 1%. Meanwhile, the rate of growth we're seeing in the invest and grow box, particularly the Global FIs and Global Corporate business today- even with not yet a complete product development, not yet complete build out of Africa- we're growing at double digits in that business. And the feeling in the business and of the teams there is that the opportunity is significant. We're just beginning to scratch the surface of that.

So when you come to 2015, I think much as the legacy losses are behind us, and the growth that we see coming in the corporate and FI space really starts to kick in. Personally, I'm actually quite optimistic about the UK business. I think the economy here is more resilient than one might be led to believe. I was visiting a customer yesterday up in Crewe and they're having record earnings and record results in the food business. There are so many success stories out there in the UK and as we continue to grow market share and continue to capture business from disaffected customers of others, I still think there's plenty of upside for us in the UK as well.

Christopher Wheeler (Mediobanca Securities)

A statement, first of all, followed by a couple of questions. The 8%, you paused as you said that because, obviously, it doesn't match where cost and capital is, as you know, and I guess it makes the business a loss leader, which, actually, I think in the last 30 years, it's always been that kind of way. I suppose what you must be thinking about is; what are the other things you can do to change that and push it on beyond the cost of capital. So, I suppose, the three things I'm asking you about is, first of all, the links with Investment Banking; there seems to be a bit of reluctance to actually merge the businesses and we've seen that most recently with JP Morgan, many have done that before. So the first question is; is that something that's on your mind that could benefit from greater synergy? Certainly, Jamie Dimon thinks so in his case. The second thing, I suppose, is on products. Obviously, the focus on cash management trade, nice businesses, is there any way you can think you can move up the value chain? Finally, the issue that's always faced this business is the amount of capital you have tied up in it and can you actually create a business where the capital is more dynamic. I know that was always the dream, the question is, is that something that you think is possible or is it something that is difficult if you're going to serve the customers if you're going to serve the customers the way you wish to. Thanks.

John Winter

In terms of merging the business with IB, what I would say is I, and others, approached this where there are no sacred cows and if there's anything we can do to change the way we run the business, we will consider it. Whether it's exiting businesses, repositioning businesses and so forth. So what we've found is that there is a slice of the business that benefits from the synergy with the Investment Bank. We talk about global corporates and the joint coverage initiatives we have, it's designed to exploit that. The bulk of the UK business, the bulk of the corporate banking business for Barclays, is in the UK, so when I ran the investment banking business in the UK and Europe, we had, for example, about 150 corporate clients. Here, we've got over 25,000. It's just a different business and Tom King and I've talked about this with quite a lot, his experience at Citibank was similar. When you merge it, one dies and it's usually the corporate bank. In all my years in investment banking, no matter what you say, you just don't care about anything other than investment banking; you just want to do those deals. And it's just not that exciting to be doing cash management for the Irish sub of a big company or whatever. So there really are some synergies, but to merge them doesn't work.

The other practical constraint, when I look at my cost line, is I don't want to impact my comp income ratio either. We have a much different cost base in the Corporate Bank than in the Investment Bank, so there is quite a lot of where we have the synergies, we want to exploit them, but where they don't exist, let's just stop looking for them. They really are different businesses, different people, different clients and so forth. In terms of products, the way this business should work is you should be able to fund your loan book through the same set of clients you're lending money to, but to do that, you've got to have some innovative products. You can't just pay for deposits and make loans and try to make a living. You've actually got to go out there and provide this full suite of services. I'm with you, I think moving up the value chain is exactly the right idea. I would characterise it this way, when I think back to my previous experience in investment banking, there was a lot of intellectual capital being deployed at fairly arcane issues that clients may have. Now come to corporate banking and see these £300 billion of payments a day and all these things that are going on and the desire clients have for advice around how to manage the basic operational needs they have in their bank, there's been very little intellectual capital, and, so to some extent, financial capital deployed in that, so I think there's huge opportunity for us to add value.

Just one brief example, one of the things we do is we've created an advisory team in debt finance, so when we provide loans, we don't just wait for the client to ring up and then give them a loan. We have an advisory team now that we can deploy and say okay, let's actually talk about your financing options, let's really provide a different quality of service and a different level of ideas and clients love that. They just think it's fantastic. So there's a lot we can do, and are doing, to upgrade the business. That said, corporate banking will remain a basic business. We lend money, we take in deposits, we make payments, we want to do it in a very transparent, clear and profitable way.

In terms of capital, some of its legacy we're stuck with for a long time, some of it, we're exiting. The more velocity in capital is absolutely part of the story. So you look at trade, the trade finance business does have high velocity capital and most of the other things that we're focused on around payments are very capital like.

I guess whoever gets the microphone nearest quickest gets a question.

Andrew Coombs (Citigroup)

Hi there, it's Andrew Coombs from Citi. I just wanted to clarify one of the points you made earlier when you said that the European corporate business should be less than a 1% drag on the ROE by 2015. Is that correct? Bearing that in mind, given that you're already doing a 10% ROE in UK corporate, you're talking about less than a 1% drag from Europe by 2015 and you're targeting 8% for corporate as a whole, does that mean that the global corporates in FI or the rest of the world business, as it were, is also expected to be about a 1% drag on the ROE?

Mark Merson

I think we're doing the total sums not quite correctly there because we have other parts of our business. If you look at the quadrant slide on page six of the deck, you can see that we have our African businesses and our UK ESHLA business, all of which we need to deal with effectively. I think John's right in terms of the aspiration for the 1% drag. We've got a long way to go to get there. We've got a business, as of today in 2012, which took in £542 million of impairment and was substantially loss making, so I think it's the right aspiration to have, but it's a big reach from where we are today.

John Winter

And in terms of the other sales that you mentioned, I think quadrant two and three, essentially, cancel each other out today. We've got the domestic and international corporate business in Africa, which we're starting to wrestle with, so there's a lot of work to do, but it's hard to build into the planning period how quickly we can run down some of the legacy assets we have. They're just fairly long dated.

Andrew Coombs

Just on the UK book, looking at the ESHLA portfolio, you have it under that reposition bucket, I think about £5 billion of RWA, so it's about almost a fifth of the UK RWAs. Presumably, that's a very long dated book, so I was interested to know what exactly you mean by repositioning that book. Presumably, that's quite a significant drag on the UK return profile.

John Winter

Yes, so there are three client segments that are in this book. This is the book that is fair value accounted. A lot of what we're doing, you're right, the loans are long dated, is approaching them and saying you're a normal client with normal transactional banking needs, normal banking needs, we need to start servicing you for more of those needs. What we discovered in looking at the book in detail is that a number of those clients were what we call debt only clients, they were only borrowing money from us, so part of it is repositioning it from clients we don't know very well and have only lent money to years ago and are now sitting there with these loans and saying well, actually, let's refocus on these clients and try to generate a broader relationship from them.

Peter Toeman (HSBC)

You talked about the small mid-selling issue, but I wondered; will it have a permanent effect on the ability to cross-sell products to the Investment Bank and the commercial Corporate Bank?

John Winter

To that client base, yes. Just to be clear, the redress option is available to clients that are deemed unsophisticated and the criteria for establishing whether a client is sophisticated or not is formulaic and, basically, handed down by the regulator. So, for example, £6.5 million of turnover or less is one possibility. £10 million or less of total hedging is likely to mean you're unsophisticated, so there are a few… So for that client base, we simply do not market, and have not for a long time now, these types of interest rate hedging products to them, but for sophisticated clients, that's not just me saying sophisticated, but from a regulatory perspective, clients deemed as sophisticated, we are able to execute hedging transactions with. It's important to note that in this whole process, the FCA has not said clients should not be allowed to hedge, but we're very, very rigorous now about the process we go through to execute hedges for them. Even basic products like fixed rate loans, which is a fairly exhaustive discussion internally around where we should position their product, should we be offering fixed rates loans and should that even be an option for certain types of clients that are deemed as being unsophisticated?

Raul Sinha (JP Morgan)

Just to stay on the same topic, please, how do you treat the revenue that the ancillary hedging activity generates? You talked about lending, deposits and cash management as your three main products, but obviously, a large base still needs FX and interested rate hedging. Is that booked in the Investment Bank? What proportion of revenues does the Corporate Bank throw off to the Investment Bank and how do you remunerate the Corporate Bank for that?

John Winter

The single biggest product in the Investment Bank that we use in the Corporate Bank is FX, and, again, growing nicely. Several years ago, the amount of revenues that were shared between the Investment Bank and Corporate Bank in straight swaps was higher than FX, but, not surprisingly, the interest rate swap revenues have declined precipitously, but there's a lot of FX and a lot of it is FX that comes out of the back of payments. It's not necessarily sales person calling client executing trade; it's basically an output of some of the other business we're doing. So in terms of how we've shared revenues, there's what we call economic transfer agreement, an ETA, in place for several years between the Corporate Bank and the Investment Bank, more or less. The percentages vary depending on the product, but an FX, for example, 75%, typically stays with us and 25% goes to the Investment Bank.

Raul Sinha

Could you give us some indication of the size of those revenues?

John Winter

Do we disclose that?

Mark Merson

We haven't disclosed it and I haven't got it in the top of my head, so we're in no danger of disclosing it just at the moment.

Jason Napier (Deutsche Bank)

Two please. Slide 14 has an Africa PBT of £95 million and a non-Europe, non-UK PBT last year for the division was a £33 million profit. So I just wondered the implied loss of £62 million, how much of that is fixed already in the exits in India and so on and naturally flows through to this year? That was the first one. Then, secondly, you highlighted and transformed the restructuring charge you've taken so far. There's a lot of talk about investment and systems and product and so on, I just wondered what the budget is for investment that is capitalised to the balance sheet rather than written straight off.

John Winter

We exited most of our, well, virtually of our retail asset portfolios in India before the end of last year, so that was… I'm going to look to , Keith Ho, who oversees our disposals- I don't know if you remember what the net loss was on those exits, but it was about £65m or £70m, I can't remember the exact number.

Keith Ho (Head of Special Situations, Barclays Corporate Bank)

The total loss around the disposal effort was, £47 million last year from disposal of the retail business in India.

John Winter

The reason these exit process usually take about a year- it's a very long, drawn out process, so there's income coming in from the portfolio while you're exiting it and prices are being negotiated and so forth, so they're relatively complicated.

Mark Merson

And in the Africa corporate line on this page, we've got both new business that's transferred in and the existing business that we have to start with, so we were already looking after the Absa corporates within this line and you will have seen, if you look carefully at your restatement, virtually all of the line which is not head office allocated restatement line is the Africa non-Absa businesses coming into corporate. So you can look quite carefully and work out the marginal profitability that's provided by those businesses.

Jason Napier (Deutsche Bank)

Based on capitalised costs?

Mark Merson

On capitalised costs, we do capitalise some of the costs. I haven't got a specific budget out of the total Transform costs and actually, we looked pretty sceptically at the fact of capitalising, particularly internal software. I know that's an allowed accounting treatment and that's one that we do adopt in relevant places, but we certainly don't set out with a budget that we're going to capitalise X or Y, but we can share that with you as we go, that's clearly something that is disclosable and visible to you.

Jason Napier

To the extent that you are going to write those things off? Is that within the number that you shared on your Transform, the budget?

Mark Merson

Yes.

James Alexander (M&G)

I don't know how much you look at your competitors, but I was just looking at the RBS UK corporate banking business numbers and it's about twice the size of your UK Corporate Banking business. You say you've got 20% market share of loans and deposits, you've got 25% of UK corporate first bank (relationships). I'm struggling a bit to understand why they're twice your size then.

John Winter

RBS is bigger, their market share, if I remember, is about 30% or 31%. Off the top of my head, I don't know whether they slice the client base the same way we do. Because if you go between £5 million turnover companies and £1 million turnover companies, you add close to a million clients and a significant, and below that, a significant number of revenues and so forth. Ian Stuart, who is co-head of our UK business can help.

Ian Stuart (Managing Director, Barclays Corporate Banking)

From memory, £2.5 million of turnover clients in RBS are business bank where they've got about 1.4 million accounts that's up to £2.5 million level. Then it goes into the commercial bank and into the corporate bank. So it's a slightly different mix of business, but they have got about 31% market share versus our 24% of total corporates in the UK.

John Winter

And in investment banking as well, do they have a separate… do they split out the investment bank at the high end or is that part of it as well, I can't remember?

Ian Stuart

From memory, I think it's still split out of the investment bank.

Chris Manners (Morgan Stanley)

Thanks. I have a couple of questions for you. The first one is on what you think the outlook for loan growth is in domestic UK and then your rest of world business. Obviously, it looks like you're putting on quite a chunky amount of extra [unclear] efforts, like the rundown areas. Secondly, what you think about the outlook for net interest margins. If we stay in a low rate environment, do you think you're going to be able to keep them stable, grow them, shrink, what's the outlook there?

John Winter

In terms of loan growth, we're seeing in the last three years in the corporate sector in the UK, we've had over an £80 billion decline in the size of the market. The UK corporates today are sitting with £750 billion of cash on their balance sheets, so huge deposit increase, deposit market growing, the asset market is shrinking. We've managed to increase slightly our loan book and it's had a significant impact on our market share in the UK as a result. Outside the UK, we are not trying to grow our loan book as a general statement. We're deploying it around trade and some other more strategic issues, but, by and large, we're not into a let's go and pile on risk on the balance sheet.

In terms of net interest margin we attribute part of a net interest margin to liabilities and part of it to the asset side. We've seen an increase over the course of last year in terms of the value of the liabilities, but we've also seen, as we've run down some of the relatively ugly underwater legacy assets, we've seen a slight increase in our asset margins as well, but I'm pretty cautious about it, though. Mark, if you want to comment, I'm very cautious about the prospects for NIM, particularly in the near-term, just given the environment we're in.

Mark Merson

So in the near-term, the funding for lending schemes do compress margins available to the industry and there is some impact of that to roll forward into the averages, which is evident in the spot numbers at the moment. Thereafter, actually, I feel a bit more sanguine about margins, not least because of the extent of the deposit placement by corporates, particularly in the UK, driving all banks to have a much stronger funding position and, therefore, the pricing relative to liabilities, I suspect, will have less pressure on it in the future.

Some compression in the short-term, due to funding for lending impact and then, thereafter, stable to potentially a slight rising.

Chris Manners

Thanks. I was just trying to work out then if you've got stable-ish UK balances, not fast growth in overseas balances, then hopefully, picking up margin, you get so much revenue growth.

John Winter

One of the things that you see in the UK, the fastest growing client base for us in the UK is doing business with the UK subs of non-UK companies and most of that is operational banking, it's not necessarily assets. So for our UK… for that client base, we have a large multiple of deposits in transactional banking as we do assets deployed. So when you look at this global corporate space, it isn't quite a NIM game. You're providing all sorts of different services and the revenue growth we see just in the transactions business, in the payments business, for example, is significant.

Mark Merson

And in terms of all the income growth that you're referenced, in 2012, we had something over £3 billion of revenues, just shy of £3.1 billion. Our target in 2015 is 3.2 to 3.7, it gives us a fairly wide target to hit, you'll have noticed, and it's not necessarily conditioned on a lot of growth and revenue between now and then.

Michael Helsby (Bank of America Merrill Lynch)

Thanks. It's Michael Helsby from Merrill Lynch again. I was just listening to your comments and I was just wondering, we obviously sat through a Lloyds investor day on commercial banking just the other week and they went through quite a lot in terms of how they saw the franchise, what they could offer and what their selling point was to the customers. I've not heard that much of that from you today because you've not really shown off the next tier of management, but I wonder if you could just talk a little bit about what you think Barclays does differently, given that it's such a concentrated space in the UK, about what you do differently and how you're going to take market share from those big incumbents.

John Winter

What clients tell me over and over, in the UK and elsewhere, is the thing they want most is technology that's reliable, but they want service. They want a relationship with somebody who understands them and knows them and is responsive and empowered to act. So I feel that a technological advantage in this business tends to be temporary, like in most, but it really is the quality of the service we provide and the experience the customer has that differentiates us. When you look at the stability of our franchise in the UK, the number of clients that are coming to us, the growth in market share that we've got and just the energy in the business, that relationship, that service, that focus is a differentiating feature. As we roll out the new technology now, we've got that as well. Then for the clients that are at the larger end, that have cross-border needs, we're in a completely different space. The ability to sit down with a company and talk credibly about how we can service them all over the world is a big deal. An example; last week, I had lunch at the home of a very wealthy entrepreneur who controls 122 companies and we bank three of them. He said, talk about how we could do more, he's interested in Europe and Africa and so for, but interestingly enough, his number one concern before doing more business with us was what was the account opening procedure going to be like? If one of my 122 companies wants to do business with you in France, tell me you're not going to ask me for my utility bill and this is a billionaire saying this. It's non-trivial to have quality, sensible service where people feel like you're talking to individuals and not something else, so I find, over and over, that is one of the main ways we differentiate it. That said, if you see some of our technology, that also is helping at the moment.

I think we promised we'd be done by seven; it's five to. If there's maybe one more and then we can wrap up and have a chance to chat informally. Please stay and look at some of the technology, if you have time. I'd be delighted for you to meet some more of my management as well. Okay, no more questions. Thank you very much. I appreciate your interest today.

Thank you.