21 November 2013

Nomura Financial Services Conference

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Slide 0: Name Slide

Good morning, and thank you for inviting me to be with you today. I want to touch on the third-quarter results for the Investment Banking sector as a whole, and for the Investment Bank at Barclays in particular.

And at the same time give you a better sense of the breadth and scale of our franchise, and the progress we are making in our journey to become the 'Go-To' bank.

Then I want to take your questions, when I will be joined by Charlie Rozes from our Investor Relations team.

Slide 1: Investment Bank PBT reflected CTA and reduced income from legacy assets

As you know, there was significant macroeconomic uncertainty in the third quarter; which led to subdued market activity, and negatively affected results for the Investment Banking sector overall.

The FED announced in June that it would begin tapering its Quantitative Easing program, we had the situation in Syria in July and August, and then the issues with the US budget. And that was on top of the usual seasonal summer slowdown.

All of that led to investors taking a 'risk-off' position in Q3 that affected the industry as a whole.

If we step back and look at our performance over the year to date, Profit Before Tax in the Investment Bank was down 12% compared to the previous year, with half of that reduction due to restructuring charges we took earlier in the year, to re-position parts of our business in Europe and Asia Pacific. Performance was also affected by decisions we took to reduce the resources consumed by the business.

Taken together, these changes resulted in RWAs down 12% from the start of the year to the end of Q3, IFRS Balance Sheet down 13% over the same period and costs down 7%, excluding the investment we are making in the business under the Transform Programme.

Those reductions are not one-offs, but the result of management decisions that you should expect to see in the future as well, as we transform the business to generate higher and more sustainable returns.

We set out four years ago to build a full-service, global Investment Bank franchise, following our acquisition of the US business of Lehman Brothers, and we have made significant progress since then, right across the organisation.

Our franchise is solid, with a good overall mix of businesses, and clear progress in monetising our build out.

My Co-Chief Executive Tom King and I are pleased with the way the business is performing, with continued growth in Banking and Equities, a resilient performance in FICC maintaining our leading positions, and good progress in managing RWAs, leverage and cost.

Let me now give you some more colour on the results.

Slide 2: Investment Banking and Equities are getting stronger

Let’s start with Banking – that’s M&A, ECM and DCM, as well as our Risk Solutions Group. Banking is a less capital intensive part of our business so the build here has been an area of strategic focus, and we achieved some great highlights in Q3.

For the first time ever, we ranked in the top 3 on a quarterly fee share basis in the US, and also maintained a top 3 position in the UK year to date. We also reinforced our position in our two home markets, with key roles on the biggest deals in each: Verizon in the US, and Royal Mail in the UK.

Our Banking franchise has consistent momentum.

In Advisory we have significantly increased our volume share over the last few years, up from 13% in 2009 to 18% today.

And even with the weak environment for M&A in Q3, down in deals and flat on volume, we have outperformed the market both in the quarter and year-to-date. We were on all of the three largest deals globally in the quarter as well: Abbvie, Smithfield and the landmark Verizon transaction.

In Equity underwriting, we have invested and grown significantly over the last few years, with our volume share going from 1.5% in 2009 to 5% today. The Equity deal calendar was strong in the third quarter, we saw significantly more IPO activity, and we are now really benefitting from our investment, outperforming the market both in the quarter and year-to-date. We see more potential in the business for us to grow further, with a strong pipeline and great strategic client relationships.

In Debt Capital Markets, we are one of the few players operating across all major currencies, and we have maintained our traditional strength in this area. That positions us well, as we continue to see the trend of companies replacing bank financing with capital markets financing, particularly in Europe, where we have a home market advantage.

Now I want to turn to the Markets side of the business, that's Fixed Income, Currencies and Commodities – or FICC as we call it, as well as Equities and Prime Services, which we report together.

In Equities, we continue to realise the benefits from investments over the last four years, with a global strategy modeled on our North American business, to deliver market share growth, in a way that is capital efficient. And we have seen evidence of this coming through in the results, with Equities and Prime Services revenues together up 23% on last year for the quarter, and up 26% year to date. We believe that there is still more upside in this business for us, as we build further momentum.

Slide 3: Barclays is a leader in FICC flow products

Our FICC franchise remains a leader in the industry, and we believe that our flow-based model is the best long-term strategy for success.

There are only a few other banks that have the client franchise, technology platform, and scale to compete in this space, and we stand to benefit as firms without that scale exit the market over time.

As I said before, it has been a subdued quarter for FICC across the industry. The macro uncertainty made it a difficult environment for investors to take risk, and flow volumes were down. As a result, our overall FICC revenue was down 34% for the third quarter, excluding the effect of legacy asset reductions.

It is important to talk about revenue, but our focus on returns means it is equally important to talk about RWAs, Leverage, and how we are managing our Costs.

We believe RWAs will remain an important metric in capital allocation, but we are also refining our framework to consider leverage as well. This is about finding the optimal balance between the competing demands.

Slide 4: Reduction of Exit Quadrant assets has been accelerated

As I said at our Investor Seminar in June, when we think about RWAs, we think about how we manage our current business, and also how we manage legacy assets.

We have powerful tools and detailed management information that let us track RWA usage in a very granular way, so that new business is priced to generate the right return profile, and legacy assets can be unwound or restructured where they have high RWA usage.

Managing down legacy assets allows us to free-up capital and invest in selected areas for higher returns; it is something we are really focused on, and we have made great progress.

At the start of the year our legacy CRD IV RWAs in the Investment Bank were at £79bn. We had reduced that to £55bn by the end of the first half, and we announced a further reduction to £40bn at the end of third quarter, which is half the amount we had at the start of the year, and an indication of our proven ability to sell-off or wind-down these assets.

Slide 5: Focus on Group leverage exposure reduction

Now let's talk about Leverage. It is a complex topic, and something that will affect the entire industry globally over the next few years. Firms who succeed will be the ones who can adapt, and I am very confident we can optimise our business to succeed in the new environment.

As we said on the Q3 results call, we are currently re-assessing the Group balance sheet from several angles, to determine the best optimisation of risk assets, leverage, and other measures like revenue, cost, and liquidity.

But we are already taking action to manage CRD IV leverage, and the skills required are very similar to those for managing RWAs, where we have a strong track record.

New business today is being written within clear leverage limits, with a strong review process to ensure that the return justifies the capital.

We also vary our approach by maturity, with a tight process around longer-dated activity, to ensure that we retain flexibility in our leverage position.

In our existing book, our initial actions are particularly focused on the CRD IV leverage exposure measures, for Derivatives and SFTs, which are 'no regret' actions, involving little or no income sacrifice.

More broadly, let's take derivatives as an example of what we are doing. Derivatives add-ons for leverage, or 'Potential Future Exposures', are a material contributor to our Leverage Exposure at about £300 billion, or nearly 20% of our overall Leverage Exposure for the Group.

Here we are looking at better application of netting rules within our internal systems, and options for compaction and tear-ups across a range of derivative products.

In repos, and secured financing transactions in general, there are also internal operational improvements that can be made, to ensure that we achieve the maximum netting benefit.

Slide 6: IB cost initiatives – delivering the change

Looking at cost, we continue to believe that it will be the strategic battleground for the industry, as revenue growth remains challenging.

Our costs year to date are £233m lower than last year, and we have achieved that mainly by right-sizing the business globally for the revenue opportunity, and continuing to right-shore support functions to lower-cost locations.

But let me give you the bigger picture on costs as well.

To really succeed on the cost battleground, we have to transform the business. As the industry continues to shift to simpler products, and sees greater use of electronic channels, we are re-shaping our infrastructure to match. This means we can be more efficient.

The Transform plan that we launched earlier this year will allocate about £600m to the Investment Bank by 2015 of the total £2.7bn cost to achieve Transform for the Group. Of that allocation, we have spent £175m year to date, and we have clear plans to deliver the rest of the investment programme, and realise the savings that follow.

Slide 7: Closing comments

In conclusion, you can see that right across our franchise we are in a position of strength.

We are monetising our investments and continuing to diversify our business, with good momentum in Banking and Equities.

We are maintaining our strength in FICC, and we have a firm grip on RWAs, Leverage and Cost.

The Investment Banking industry is in transition, and we have a good track record over many years of evolving and adapting our franchise.

Our business today looks very different from just four years ago, and we are absolutely confident in our ability to continue that evolution.

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