Tushar Morzaria, Group Finance Director

Slide 2: Tushar Morzaria, Barclays Group Finance Director

Thank you for the introduction, Michael. I’m delighted to be presenting here for the first time.

I want to take the opportunity to update you on the good progress we are making in implementing our strategy, as evidenced in our recent results – but also to comment on some topical issues, including the rundown of our Non-Core unit and thoughts on our digital banking capabilities as well.

Slide 3: Five measures that show our strategy is on track

Many of you will have heard me say that there are 5 key areas I am particularly focused on, and if we make progress on these metrics quarter by quarter, then I am confident we will achieve our objectives.

The first is to generate a double-digit RoE in our Core bank, quarter-on-quarter, and certainly through the cycle. We have made good progress here over the past few quarters, with decent balance across our four core businesses; although of course this becomes harder to achieve on a higher equity base, as we continue to reallocate capital back from the Non-Core into the Core. For example, our Core equity base is now 12%, or £5bn, higher than it was at the end of the first half of 2014.

Second, the continued reduction of our Non-Core unit against every metric – whether that’s cost, RWAs, leverage – allowing us to redistribute capital to the Core, and reduce the drag Non-Core has on Group returns. This is critical to the delivery of the accelerated rundown of Non-Core that we announced at the half year results.

Third, capital accretion: we reached our initial capital milestones of 11% [for CET1] and 4% for leverage, at the half year, 18 months ahead of target. We can now concentrate on moving gradually towards an end-state CET 1 target ratio of above 12%. Having made so much progress on capital recently - +200 basis points accretion since the end of 2013 - I wouldn’t expect this to be a linear path from here, as we absorb various headwinds, and we’ll aim to keep the CET1 ratio at around 11% through year-end.
As we build the capital base, we need to increase profits in order to achieve our returns targets and, in the current income environment, cost reduction remains a key lever, which is my fourth measure. Delivery of our cost programmes and improving efficiency will lead to a structurally lower cost base – rather than just a cyclical reduction.

You’ll recall John McFarlane’s comments at the half year about removing and reallocating cost from unproductive activities to bring down our cost income ratio to the mid-50’s over time. And this remains a critical component of our strategy.

Finally, the management of historical litigation and conduct issues – and resolving them in a prudent manner – is a key priority to allow our strong underlying performance to deliver value to shareholders.

If we can achieve all or most of these each quarter, and all of them through the cycle, it will enable us to generate higher and more sustainable earnings per share, and also increase our capital distributions through dividends over time.

Now, let me quickly recap our Q2 results.

**Slide 4: Continued good progress in Q2**

We reported good progress in Q2, continuing many of the Q1 trends, increasing group profits and reporting double digit RoE for the Core business. We increased Group adjusted profit before tax by 12% to £1.8 billion and Core PBT improved 6% to £2.1 billion. We achieved positive jaws at both the Group and Core level.

Core RoE was 11% and this was on an average equity base that was £5 billion higher at £47 billion. It was particularly encouraging that we improved the Investment Bank contribution to RoE in Q2 into double digits at 11.5%.

We continued to run-down Non-Core: RWAs were down £8 billion in the quarter and £1.4 billion of further capital was released.

We also made progress on legacy items in Q2, notably DOJ and regulatory actions for FX and ISDAfix. Despite these conduct provisions, we still managed to grow our CET1 ratio to 11.1% and leverage ratio to 4.1%.
We continued to reduce costs, with total operating expenses down by 6%. Even after the substantial cost reductions delivered in 2014, we anticipate further savings coming through the remainder of 2015 to reach our £16.3 billion guidance.

Although I am pleased with the returns we made in Q2 and the first half as a whole, it’s important not to extrapolate this out to the full year, given the usual seasonality we see in the second half and factors including the bank levy which we take effect in the fourth quarter.

Turning now to our strengthened capital position.

**Slide 5: Progressive strengthening of key capital metrics**

We have made significant progress on our capital build since 2013, accreting 200bps as I mentioned, and that’s after absorbing significant conduct and litigation provisions which have had an aggregate 100 basis points impact on our CET1 ratio during that time.

As these headwinds reduce, we should see the true capital generation of the Group come through.

We also continue to pay dividends to our shareholders, with distributions over the last five quarters representing about a 60 basis points reduction in the CET1 ratio.

As I mentioned earlier, while this progress has been encouraging, I would not expect the journey to our end-state target to be linear quarter by quarter.

We do expect some RWA and capital headwinds in the second half of this year, which will mean we keep the CET1 ratio around 11% through year end.

Although we have achieved our 2016 target ahead of schedule, we are not recalibrating it, but targeting a higher end-state capital ratio based on a management buffer of around 150 basis points above our regulatory minimum requirement. Using the current Pillar 2A that would translate to just over 12% in 2019.

There are obviously longer-term headwinds coming in the form of so-called Basel 4 items, probably from 2017/18, including the fundamental review of the trading book and proposals on standardised floors and operational risk.

It is too early to give estimates on the potential effect of these proposals.
We do hope to get a better line of sight on calibration of the trading book review at around year-end, but we kept a significant proportion of our Market Risk RWAs as standardised and we have moved toward a lower risk model in the Investment Bank over the past few years.

We have also been asked about IFRS 9 increasingly over recent weeks. This will be implemented in 2018 and again, it is far too early to estimate the effects. It is likely to be a negative to book equity and capital, but we remain confident that we can absorb all of these headwinds within our current capital plans.

Briefly touching on leverage too, we were pleased to hit our 2016 target of above 4%, as leverage exposure was reduced in the quarter by £116 billion, principally in Non-Core. And just to remind you, our leverage ratio has improved 110 basis points in 18 months to 4.1%. You’ll recall also that we adjusted our dividend policy with the aim of becoming a progressive and sustainable dividend payer over time.

We’ve moved away from a precise, formula-driven payout [ratio] because we didn’t see that as an appropriate means of achieving this. With this in mind, the Board felt it was prudent to hold this year’s dividend flat at 6.5p. We haven’t set a formal trigger for increasing the dividend from this level. It will be accompanied by increased and sustainable earnings, and a strong financial position.

Let me now cover our Core businesses, which have been performing well.

**Slide 6: Q2 Core performance: Positive jaws and PBT up 6%**

PCB’s results were affected by the loss on sale of the US Wealth business and customer redress related to it, which together totalled £150 million in Q2.

Adjusting for this, PBT for the second quarter was up 10%, with income growth of 2% while we reduced total operating costs by 3%, delivering another quarter of underlying positive jaws. This resulted in an underlying Q2 cost income ratio of 57% and we expect to continue to drive this down over the next few years.

The UK economy has demonstrated good growth, led by a pick-up in consumer spending. For example, consumer spending grew at 4.5% year on year in the second quarter, the highest rate for three years, although we did see some slowing down in August. I’m hence optimistic on the overall macro operating environment, despite the recent stock market volatility that we’ve seen.
There has been a lot of focus on the mortgage market. And while the overall market has picked up over the summer, we continue to see pressure on margins as the market remains competitive. As you know, we adopt a fairly conservative risk appetite, meaning we are not as aggressive in chasing higher loan-to-value or buy-to-let business. However, I remain confident in this approach, and feel that we are well positioned.

Our Corporate business is doing well – income grew 9% in Q2, driven principally by continued growth in our cash management business. We estimate our share of UK corporate deposits to be in the high teens and we are building on our strong UK capabilities by rolling them out across Europe and Africa, driving growth internationally across that North-South corridor.

We are also reinvesting the benefits of efficiency savings from automation – for example, on-line automated secured lending and self-service on standard trade products, to enhance the client experience and drive costs down further.

Overall, we expect the PCB margin to remain broadly flat at around 300 basis points in 2015.

Turning to Barclaycard, which continued to grow in Q2, delivering a record profit for the quarter and for the half. We increased income by 13% to £1.2 billion, driven by the US business. US cards now account for around 35% of income and a similar proportion of the loan book.

To illustrate the growth we are seeing in the US, Nilson data for 2014 shows Barclaycard ranking 5th by consumer spend on Visa and Mastercard, which is an impressive milestone for this business.

Costs increased 19%, principally reflecting business growth and there were also some one-off items, including certain marketing costs and a VAT refund in Q2 of last year. Excluding these one-offs, costs grew 8% year on year.

As a result, PBT was up 8% to £429 million and with the growth in the business and in allocated equity, RoE was flat at just under 20%.

For Africa PBT was broadly flat year on year at £245 million, while attributable profit increased by 23%. RoE increased to 9.7% and RoTE was 13.2%.
Although Q2 on Q2 there was relatively little impact from movement in the Rand, I would remind you that the recent depreciation against Sterling will affect our Q3 Africa profits, in the region of 10%, while the macro environment remains challenging.

Before I cover the Investment Bank I’d encourage you to look at Tom King’s recent comments on his business at our own financials conference in New York which are available on our Investor Relations website.

We are pleased with the repositioning of the Investment Bank to date and you are starting to see the operational leverage of the business coming through with a 35% increase in PBT in Q2, with income consistent year on year and costs down by 7%, excluding CTA.

When combined with a reduction in RWAs and resulting lower [allocated] equity, we achieved an ROE of 11.5% for the quarter. If you actually look at the returns on an economic basis, measuring just the costs and capital that were used to generate the revenues, stripping out one-offs and the timing issues, it’s probably another 100 basis points or so of ROE on top of that.

I see that as evidence that our returns focused strategy is working, allowing income to be generated utilising lower RWAs and a reduced cost base.

But we still have further work to do as we continue to optimise cost and capital to generate these sorts of returns on a consistent basis. And there are of course seasonal effects to take into account as well in the second half every year, including the bank levy in Q4. But these figures are a clear indication of the progress we are making towards generating attractive, sustainable returns through improving the productivity of the business.

Finally, I haven’t shown the Head Office result on this slide. It isn’t large, as we aim to allocate out a large proportion to all the businesses, but I have mentioned before that we expect a more negative treasury result in H2 versus H1.

I want to spend some time now on Non-Core where we continued to run down RWAs and release equity.

Slide 7: Barclays Non-Core – Reductions across every measure
I said at the start that one of my priorities was to ensure reductions in our Non-Core unit against every measure, and this slide shows the good progress that the team have made.
In Q2, we released a further £1.4 billion of equity, taking the total to £2.7 billion year to date, as we reduced RWAs by £8 billion in the last quarter.

It was encouraging to see some reductions in Derivatives RWAs after a flat Q1, plus good progress in Securities & Loans.

While there were no major business disposals in Q2, the UK Secured Lending business sale that we recently announced will reduce business RWAs by a further £1.2 billion in Q3, as will the Portugal sale by £1.7 billion when that completes in 2016.

Leverage exposure was also reduced significantly in Q2, by £70 billion, to below our [original] 2016 guidance, driven by reductions in reverse repo assets and further derivative optimisation. This means leverage has been reduced by 57% since June 2014, across all portfolios.

Costs for Q2, excluding litigation and conduct charges and CTA, were down £207 million year-on-year at £234 million. This was a similar level to Q1. We’d expect further significant cost reductions to be driven by Business disposals and just to remind you the European retail businesses account for around 40% of the current Non-Core cost base.

The Portugal sale, which we expect to complete in Q1 2016, is expected to take out roughly £50 million of gross costs next year, or about £70 million on an annualised basis. Of course, we do lose the income from business disposals as well as the cost; for example, the Portugal business is now broadly breakeven, so bear that in mind as we continue the disposals.

We will continue to chip away at the non-business costs, but they will be stickier until we make disposals of significant blocks of assets. We are very strict in the methodology of allocating costs to Non-Core and the cost team is focused on ensuring there are limited stranded costs in Non-Core, as we progress with the run-down.

Given the good progress to date, we announced at the half year that we are now targeting around £20 billion of RWAs for 2017, at which point we expect the Non-Core will be re-integrated into the Core. This guidance replaces the previous £45 billion RWA guidance for 2016.

Over the next two years we will work hard to reduce the capital consumption and operating losses of Non-Core and to release as much of the £8.3 billion of equity that is currently allocated as possible.
Let me now turn to the continued strong progress we have made in reducing the structural cost base of the Group.

**Slide 8: Group adjusted operating expenses – delivery to date**

The cost reductions in the first half were across the Investment Bank and PCB, as well as those that I have already mentioned in Non-Core. This reduced Group operating costs by 5% year-on-year in H1 to £7.9 billion excluding CTA.

We have worked very hard on this in the IB as you would expect, reducing costs by 7%, excluding CTA, in the last quarter across a lot of different areas. The Investment Bank has benefited from restructuring initiatives to right size the business – we have reduced headcount meaningfully, while still hiring selectively, primarily in origination businesses. But it isn’t just about headcount, if we are to achieve a structural shift in the cost base.

We are simplifying and investing in our technology as well, for example moving our entire macro stack onto a single technology stack, front to back, where previously we had each asset class on separate platforms. We are also looking at things like real estate and our legal structures – we’ve dissolved 170 plus legal entities – all of which demonstrates an increased discipline in our cost base.

Elsewhere, there have been branch rationalisation and optimisation programmes in PCB and Africa Banking with net closures year-on-year of 98 and 35 as at the half year. Plus the continuing development of our enhanced digital offerings to customers, benefitting the cost income ratio. And I’ll touch on this a little more in a moment.

This all contributed in reducing the cost income ratio for the Group from 66% in Q214 to 64% in Q215, but clearly we have more to do.

**Slide 9: Group and Core cost targets**

We remain committed to our cost guidance of £16.3 billion for this year, and that’s despite the increase in the bank levy. As you know our Core cost target for 2016 is £14.5 billion, which is a stretch target, given ongoing cost headwinds such as structural reform.

As we look beyond that timeframe, we see a mid-50s cost income ratio as being appropriate for Barclays over time. We have not given a specific timeframe, but expect to continue to reduce our cost base structurally while also growing income to help us to achieve it.
I now want to spend a few minutes on some of the developments in digital banking.

**Slide 10: Digital Is Barclays biggest branch**
In retail, what we call the Digital Branch is increasing in importance as we migrate customers to online and mobile-based products and solutions. We are rolling out some of these products to Corporates as well.

This has benefits in terms of cost efficiency, but we also believe that embracing technological change is the best way to increase customer satisfaction and achieve more engaged customer relationships. Digital banking is central to our future – and we are seeing high rates of digital adoption particularly among our retail customers.

The roll out of Barclays Mobile Banking continues to build momentum, with over 4 million Barclays Mobile Banking customers in 3 years since inception. And this is changing customer habits: a Barclays retail customer is using mobile banking over 26 times a month while using a branch just twice; 15% of all new customer accounts are opened digitally by our customers, either remotely or utilising the digital capability we are rolling out within our branches. These in branch self-service kiosks use exactly the same digital process that a customer would see online. Our Save and Resume capability, means they can start the process online and if they need to go into a branch for ID purposes, all the data they have entered is already in the system.

In those branches where we have rolled out the self-serve capability, nearly half of all account opening is now being done through these kiosks. This is convenient for customers and frees up time for our staff to discuss other services with them when they do come into the branch.

We’ve also seen continued growth in digital consumer [lending] origination. One area I have mentioned a few times is unsecured lending where customers have a pre-approved loan which we offer them online and, in 6 taps on their mobile banking app, customers can get the money in their account.

The amount of unsecured lending originated digitally surpassed the total for 2014 a couple of weeks ago – and this also exceeded for the first time the amount originated via the branch network year to date.
We don’t disclose precise cost income ratios per product, but to give you an idea, we estimate that this product has a cost income ratio in the low 20’s, well below that for an in-branch loan. We are also rolling out this pre-approved online loan product to SMEs.

**Slide 11: Digital innovation and embracing disruptive technologies**

In the payments space, we have always been a pioneer with new technology, from the launch of the UK’s first credit card, to chip and pin, contactless cards, and now the extension of contactless payment through NFC technology in wearables and smartphones. And remember that we are market leaders at both the user end of the payments chain and on the merchant side.

A great example of this is that we are to become the first financial services provider in the UK to introduce contactless payments from any NFC-enabled Android mobile phone later this year. This will begin with Barclaycard holders in November, and in the new year, a solution integrated with Barclays Mobile Banking will be rolled out, allowing you to load your credit and debit cards into the Barclays Mobile Banking App and use them contactlessly with your smartphone.

We have recently been asked a lot about Apple Pay – and I wanted to remind you that Apple Pay is already available with all Barclaycard cards in the US. We will continue this strong relationship by partnering with Apple Pay in the UK. And on the merchant side we have worked extensively with Transport for London to enable Apple Pay to be used on buses and trains in London.

There has also been a lot of development in wearables, with our bPay bands and other accessories gaining traction. Lyle & Scott have recently started selling the first jacket with our bPay contactless payment technology embedded within it – and other partnerships will follow.

We are also focusing on innovation with our Merchant Acquiring platform, providing solutions that help our merchant clients to sell more. A particular focus is what we call omni-channel – helping merchants to accept payments both online and in store in an integrated way with a single view of their customers. Over the Christmas period last year, an estimated 43 million people in the UK used a combination of in-store, online and click-and-collect to shop. And we expect this number to grow.

Our acquisition of the Logic Group opened up for us a whole new range of payment and loyalty technology capabilities to offer our merchant clients to help their omni-channel delivery.

I’ve focused on the technology developments in retail and corporate banking but of course we are very busy in the Investment Bank as well, where we have been investing in technology, both to improve cost
efficiency and to use as a competitive tool.

As we grew the IB, there was a tendency for every asset class to develop their own ops and tech, and those systems didn't necessarily talk to each other, or for that matter, to risk or to finance. So there's been a lot of manual intervention in terms of reconciling the data for the regulators, for financial reporting, and to simply manage the business. As we simplify that, and unify our technology, we save costs and improve the client experience, building on the industry-leading platforms we already have, for example, BARX in the FX space.

And so to conclude, let me reiterate my priorities for tracking progress against our strategic objectives.

**Slide 12: Five measures that show our strategy is on track**

The first is to achieve double digit returns in our Core business through the cycle.

Second, reduce our Non-Core unit against every metric, by cost, RWA and leverage.

Third, continue to build capital towards our end-state target of above 12%. This will be a more gradual progression compared to the capital accretion we have seen in the past 18 months.

Fourth, continue to drive down costs and to improve efficiency to achieve sustainable reductions in our cost base.

And finally, focus on resolving historical litigation and conduct items in a prudent manner.

And if we can make progress against all or most of these measures quarter-on-quarter, I’m confident we will be well placed to achieve our objectives and deliver sustainable value to our shareholders.

Now I’d be happy to take any questions you may have.
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