

**Goldman Sachs European Financials Conference – Transcript****9 June 2016****Tushar Morzaria, Barclays Group Finance Director****Slide 1: Barclays PLC**

Good morning. I'm delighted to have this opportunity to address the Goldman Sachs European Financials Conference.

Today I would like to remind you of some key themes we are focussing on as we simplify Barclays and improve returns.

**Slide 2: Simplifying Barclays to improve Group returns**

On 1st March we announced our strategy to become a Trans-Atlantic consumer, corporate and investment bank.

We announced the planned selldown of our stake in Barclays Africa – and completed the first tranche in May.

We also announced we would be accelerating the rundown of Non-Core.

These actions will allow the quality of the Group's core businesses to drive the Group's overall returns, and remember that these Core businesses are already generating a return on tangible equity in double digits.

Our CET1 capital ratio has progressed well to reach 11.3% at the end of Q1, and we are now much more confident in our capital position, with the result that we can start balancing capital ratio accretion with actions to improve returns.

Today I would like to cover how I think about allocating capital within the Group, as we build the capital ratio from the sell down of our stake in Barclays Africa and from the Non-Core rundown, and I'll stress the continuing importance of cost control, given the challenging income environment.

Before I do this, I'd like to recap briefly the new simplified shape of Barclays – cover how the Core is doing, and review the strong progress we have made in Non-Core.

### **Slide 3: Transatlantic Consumer, Corporate & Investment Bank**

We are focusing on our strength as a transatlantic consumer, corporate and investment bank, anchoring the Group in the two primary financial centres of the world, London and New York.

This simplification focuses on businesses in which Barclays has competitive advantages, operating through two divisions - Barclays UK and Barclays Corporate & International, aligned with the requirements of structural reform.

These Core divisions complement each other, providing diversification benefits, a good business mix and balance to the Group.

Barclays UK includes our leading UK retail bank, our UK consumer credit card business, and our UK Wealth business, and plays its traditional role as a committed provider of lending and financial services for small businesses.

It currently has an RoTE of around 20%, and will constitute our ring-fenced bank.

Barclays Corporate & International comprises our market leading Corporate banking business, our top-tier Investment Bank, and our Barclaycard operations in the U.S and Europe.

Within this, the Corporate and Investment Bank operations are being combined in order to drive efficiency across those businesses. Although the CIB returns are currently below where they need to be, we are committed to driving these returns to a satisfactory level – without relying on significant income growth.

Combined with the smaller but growing international cards and payments business, which already has attractive returns, the division is very close to double digit returns already.

Barclays Africa Group Limited is now presented as a discontinued operation, and we executed the first tranche of the selldown in May, with the successful sale of 12% to take our holding to just above 50%.

We are on track to fold the Non-Core back into Core at the end of 2017 with £20 billion of RWAs.

So, we expect our Group returns to trend towards the returns of our Core business over a reasonable timeframe, as the Non-Core drag is significantly reduced.

### **Slide 4: Core franchise already generating double digit RoTE**

The Core is already generating an RoTE in double digits in Q1, with 10.7% excluding own credit, and remember that we are loading this calculation with the capital we have invested in Africa, but are not taking the Africa profits into the Core returns calculation.

Barclays UK reported a RoTE of 20.5% in Q1, and is well placed to continue to deliver attractive returns, despite the subdued income environment.

Barclays Corporate & International was at 9.5%, within this Consumer, Cards & Payments returned over 23%, and CIB, although still not satisfactory, was well up on the previous year at 7.3%.

These divisional returns are on a significantly increased Core equity base, and we are now allocating equity to the businesses based on a capital ratio of 11.5%, up from 10.5% last year.

Now looking at each of these businesses briefly, I'll begin with Barclays UK, which will become our ring-fenced bank.

#### **Slide 5: Barclays UK: Differentiated by scale and digital innovation**

Barclays UK reported income of £1.8 billion in Q1, generating profit before tax of just over £700 million.

It is differentiated by its track record of successful digital innovation and its scale, with 24 million customers across personal, mortgages, business banking, wealth, and now including our UK Barclaycard business.

This combination presents us with a unique opportunity to grow our franchise, not necessarily through increasing the size of our customer base, but by deepening our engagement with existing customers, making it easier for them to do more business with us.

We will do this through leveraging our scale, but also through our technology. Transforming the way customers interact with us will result in structural reductions to our cost base.

In the current environment of low interest rates, this cost transformation is crucial to maintaining the very attractive returns from this division.

We have already taken around £1 billion out of the cost base over the last 3 years through simplification and automation of our processes.

And as transaction volumes grow steadily, we are seeing an increased proportion being done digitally, while 'over-the-counter' transactions, which are more expensive, reduce.

We estimate that digital-only customers generate roughly twice the returns of branch-only customers, and have a much lower cost to income ratio.

While leveraging our scale enables us to deliver this digital innovation to a large customer base very quickly, our penetration remains low, with only a small number of customers having more than two or three products with us.

For example, we can see that roughly 1 million of our customers have taken out a mortgage or loan with a competitor.

By targeting specific segments of our customer base that are more profitable to us, and by using data analysis to offer personalised products to them at the right time, we are able to grow our shares meaningfully in those segments where we want to.

For instance, while our share of current accounts has remained stable, growth in "engaged" customers has doubled – and these are more profitable relationships for us.

Aligning our UK credit card business with our personal business also presents a great opportunity to capitalise on our market leading position as the largest credit card issuer in the UK – with several million of our personal banking customers not currently having a credit card with us.

We remain disciplined in our focus on returns, and aim to maintain steady income growth through margin preservation, rather than through chasing pricing, or relaxation of underwriting standards. To

remind you, we are guiding to stable NIM this year of around 360 basis points, as we offset some asset pricing pressure with the liability repricing we are implementing.

Increased digital adoption will continue to structurally reduce our cost base. The cost: income ratio of Barclays UK in Q1 was 53% - and we expect further reduction to contribute meaningfully to our Group cost: income target of below 60% over time.

Turning now to the Corporate & Investment Bank, where we have seen evidence of the strength of the franchise, and that our strategic decisions are starting to pay off.

### **Slide 6: Corporate & Investment Bank: Repositioned for success**

We have put our Corporate banking alongside the Investment Bank – and we believe that this combination will further strengthen our key franchises, as we continue to reposition the business by allocating capital dynamically to deliver attractive returns.

The business is anchored in London and New York, with a strong IB franchise on both sides of the Atlantic, serving approximately 60% of the Global Fortune 500 companies and 70% of FTSE-100 companies.

Our Corporate business has been more focussed in the UK, but is also servicing multinational companies and financial institutions, and forms an important part of our international network.

Last year we arranged more loans for corporates in the UK than any other bank.

We are a UK leader in corporate mobile banking initiatives and constantly challenge ourselves to deliver innovative digital solutions for our corporate clients.

In addition, our impairments have been well contained, reflecting prudent risk management in corporate lending.

Profits from our Corporate business have risen steadily in recent years, driven by good performance in cash management, debt finance, and trade finance.

After significant restructuring in the IB over the course of the last two years, the IB has improved its performance, and in the first quarter of this year outperformed the market.

CIB overall reported income of £2.6 billion in Q1, generating profits before tax of just over £700 million.

Markets revenues for the industry fell by approximately 25% according to Coalition data, whereas our Markets business performed considerably better than that, down just 4% - and we also outperformed the market on investment banking fees.

Within those numbers we had a standout performance in certain asset classes, such as Credit where the market was down 39% and our income was up 46%.

The trend is for our Markets businesses to become increasingly agency in nature, as we seek to generate high quality, low volatility income streams.

Q1 suggests that we are on the right path – and we are now the highest-ranked European bank both globally and in the Americas, improving our Global rank and fee share this year.

However, our CIB does not currently generate returns above cost of equity, and that's unacceptable.

We are determined to change that – and we cannot rely on a rebound in fee pools, so we are very focused on cost efficiencies, including the significant synergies we believe can be achieved with the creation of the combined CIB.

I think about our CIB costs in two broad buckets, compensation costs and non-compensation costs.

We are monitoring levels of compensation costs intensively across the industry. In addition to controlling headcount and levels of fixed compensation, a key cost lever is to adjust variable compensation to reflect weaker revenues.

As Jes said at our Q1 results, while the CIB did well on the revenue side relative to the industry, we will adjust variable compensation for 2016 appropriately, given that our year over year revenues were down, and mindful that the industry made significant cuts to performance accruals in their Q1 results.

We also have a number of initiatives underway to reduce our non-compensation costs, through continuous improvement in operations and technology, and real estate rationalization – both the floor space and its location.

We are not relying on significant improvement in IB revenue pools to make up for cost inefficiencies. However when we allocate capital to the various product lines within CIB we do of course analyse where we can generate incremental income in the most capital-efficient way.

While we have already made significant strides in capital efficiency, we still see further opportunities to improve our capital productivity – and to optimise our business mix within CIB.

We intend to further integrate our client coverage model, which will allow us to allocate client capital more efficiently.

#### **Slide 7: Consumer, Cards & Payments: High-returning, growth business**

Although Consumer, Card & Payments is still a relatively small part of BC&I, it is an exciting growth story for Barclays, generating returns well over 20% in Q1.

Income increased by 24% largely through further growth in our US and German cards portfolios.

In the US we successfully completed the acquisition and conversion of the JetBlue credit card portfolio and, in the short period since, volumes of new accounts recruited are above initial expectations.

There are opportunities for further growth in US cards and in payments. This growth is likely to be a mixture of organic and inorganic – and may be at the expense of some margin dilution, but we expect these businesses to continue to deliver attractive returns, well above the Group's cost of equity.

#### **Slide 8: Proven Non-Core rundown execution**

Turning now to Non-Core, we are very pleased with progress we have made in running down Non-Core since it was established with £110 billion of RWAs in early 2014.

We reached £51 billion of RWAs at the end of Q1 – and that's with the top up of £8 billion with the transfer of additional businesses and assets into Non-Core.

Despite this we have reiterated our guidance of £20 billion of RWAs by end-2017.

This acceleration will result in a meaningful loss for Non-Core this year, but you should see a much lower drag on Group returns emerging in 2017.

When we fold Non-Core back into the Core, we would expect this to have a minimal impact on the Core returns.

We now have increasing visibility of the Non-Core deal flow and the next slide shows the strong pipeline of business disposals.

#### **Slide 9: Strong pipeline of announced business disposals**

These are in varying stages of completion, from the Portuguese retail disposal, which closed on 1st April, to France retail where we recently announced exclusive discussions with a potential purchaser, although the timing remains uncertain.

The expected pro-forma impact of completing these disposals would deliver around £5 billion of further RWA reduction, and 15 to 20 basis points of accretion to the CET1 ratio.

Looking at the other two categories in Non-Core, the biggest remaining element in Securities & Loans are the ESHLA loans – long-dated sterling loans, which are very high credit quality, but attract penal capital weightings, due principally to their illiquidity. We continue to look for opportunities to exit or restructure these, but we may decide it makes economic sense to continue to hold some of them beyond 2017.

Meanwhile we are making good progress in reducing Non-Core derivatives. There are a large number of trades, and we have to work our way through them, which is time-consuming. So we tend not to get step change reductions, in the way we do with business disposals – but we do try to package blocks together where we can, as with the novation agreement we signed with JP Morgan.

A lot of them are vanilla derivatives – and the book is well hedged – so again we aren't forced sellers.

#### **Slide 10: Non-Core income and cost guidance**

This slide summarises what drives the Non-Core result – income and costs, as impairment is relatively immaterial.

Starting with income, as we have exited the more income generative businesses and assets, we have naturally reduced the income significantly.

At Q1 we reported net negative income of £242 million. This was driven mostly by fair value moves of £374 million on ESHLA.

So the income excluding this was still positive in Q1. But as we complete the disposals of further businesses, that income will continue to reduce, as will the cost base.

Going forward the residual income line will be a mix of one-off exit losses from loans and derivatives, which go through the income line, and the net cost of funding the remaining assets.

With the acceleration of the run down, we would expect an increased run rate of exit losses over the remaining quarters of this year, so I remain comfortable with previous guidance for the Non-Core

income line: while there will be variation quarter by quarter, you can still assume an average quarterly run rate of around £200 million negative as a guide for where full year 2016 will end up, excluding fair value movements on ESHLA which are very hard to predict.

This also excludes the profits or losses we will make on Business disposals, which will go through the Other Net Income line.

Going forward into 2017 and 2018, income should trend towards a residual funding cost, which will be a significantly lower income drag.

On costs, we remain focused on significantly reducing the cost run rate from current levels.

The majority of this will come through elimination of a large part of the £600 million cost base for those additional businesses and assets we transferred in – and from the other business disposals in the pipeline.

The £400 million of restructuring cost for 2016 we have guided to will also drop out in 2017.

So 2017 costs will be well below the 2016 level.

#### **Slide 11: Strong CET1 ratio progression**

Turning now to our capital position, we are increasingly comfortable with our current and projected capital ratios.

Our CET1 ratio at 31 March was 11.3%, on an RWA base of £363 billion – an increase of 220 bps since the end of 2013.

The sell down of Africa and Non-Core disposals should together contribute more than 100 bps of ratio accretion. These actions will take us a long way towards our current expected end state requirement.

There remain headwinds from outstanding conduct and litigation, and, over time, from RWA inflation and potentially from IFRS9, but with the organic capital generation from our Core businesses, we are confident in our capital flightpath.

#### **Slide 12: Confidence on capital trajectory allows flexibility to pursue RoTE accretive actions**

This chart shows the elements of the potential January 2019 requirement, based on our current state of knowledge. We plan to hold 100 to 150 basis points above the minimum regulatory buffers.

The elements making this up can vary over time, and in particular we have hopes of moving down from the 2.0% bracket for the G-SIFI buffer.

In addition the Bank of England has suggested there may be some offset for future changes in RWA rules through reduction in the Pillar 2A requirement – but this may be beyond this timeframe and remains uncertain in quantum.

Given our progress in building the capital ratio, and the visibility we have on our future glidepath, we can now consider actions to enhance returns, such as the announced redemption of one of our retail preference shares – an action which takes 6 bps off the capital ratio, but brings a significant returns benefit – and other liability management exercises executed earlier this year.

We will strike a careful balance between capital accretion and such actions.

As I have said many times, the quarter by quarter path to our end state will not be linear – but I do expect the capital ratio to progress over the remainder of the year, subject to the timing of some of our outstanding litigation and conduct headwinds.

As we accrete our capital ratio towards this end state, it is critical that we manage the allocation of capital to our businesses in a manner that improves Group returns – and in a way that avoids undue concentration risk.

### **Slide 13: Capital allocation balanced and diversified across the Group**

We firmly believe in the benefit of diversification, in terms of both geography and product offering.

As we simplify the Group in terms of structure, it is important that we maintain diversification – and, over the time, demonstrate the benefits of such diversification, in changing economic environments.

This is important in looking at our two Core divisions, but also at a more granular level within them.

While we have highlighted the benefits of combining Corporate and Investment Banking, it is also important to understand the diversity of business lines within the CIB, which contains corporate lending, transactional banking, debt and equity underwriting, and advisory, within the Banking segment, plus the Markets business.

This slide shows the diversification across the Group, using the split of RWAs as a measure.

We need to be comfortable that no single business line will dominate the Group's financial performance, as we seek lower volatility and higher quality of earnings, notably in the Markets businesses.

On the left hand side you see the diversification of RWAs by division and type of risk.

The right hand bar breaks this down further. We don't disclose precise numbers for RWAs by product, but you can see the diversification across the Group's business lines. In particular, the Markets business in aggregate accounts for just 15% of Group RWAs excluding operational risk, which feels like the right sort of level.

You can also see the diversification within the Markets business across Equities, Credit and Macro, which we believe is allowing us to deliver less volatile results than some more monoline peers.

As we seek to improve our returns it is important that we are dynamic in our allocation of capital between product areas.

### **Slide 14: Reallocation of equity towards higher returning products**

This next slide shows some of the changes we have made in Core business products over the last 15 months in terms of RWAs, as an example.

Over the last couple of years we have significantly reduced RWAs in the Core Markets business, across the three product lines – Credit, Equity and Macro, and on the left we quantify the reduction since Q4



14 - down 13% in aggregate. While over that same period, 12 month trailing income has risen slightly, as we improved capital efficiency.

Over the last two years we have also significantly reduced the Non-Core RWAs relating to activities which were previously in the IB. A large proportion of the £60 billion RWA reduction there relates to former Markets activities.

On the right you see how we have been allocating more RWAs to international cards and payments, and to unsecured lending, where we have been generating very attractive returns.

We expect to continue this reallocation process over the next few years.

We aren't setting hard and fast limits for each of our businesses or product lines, as the capital allocation will depend on their evolving returns profiles and outlook.

However we do expect to run a low inventory model in the Markets business, and for this to be reflected in the level of RWA and capital allocation.

Given the returns we are earning in the consumer businesses and other areas such as corporate payments, you would not be surprised to see increased capital allocated to those areas.

However any incremental capital allocation will be carefully assessed against alternative uses of capital – in particular increased return of capital to shareholders, with our intention to pay sustainable levels of dividend distribution.

#### **Slide 15: Continued focus on cost discipline and efficiency**

However smart we are on capital allocation, given low interest rates and the challenging income environment, continuing focus on cost efficiency will remain crucial in achieving our objective of improving our returns.

We have reduced overall Group costs, excluding conduct and litigation, and other notable items, from £19.5 billion in 2013 to £16.6 billion last year.

I mentioned cost reductions in Non-Core, and in both Barclays UK and CIB. The Non-Core costs path is sharply downward, but I want to emphasise that we are not yet satisfied with the Core cost base, and are exploring all avenues to reduce costs further, particularly in the CIB.

We remain on track to hit our Core cost target of £12.8 billion for 2016, but this is not the end of the journey. Cost control will remain a crucial tool in the returns equation - our strategic cost programme has, and will continue to deliver structural cost efficiencies across the Group.

The increased digitalisation and automation of processes, the simplification of platforms, the headcount reductions and the intention to make compensation costs more flexible, all which we mentioned at Q1, are examples of the actions we are taking to reduce costs.

So, both the Non-Core and Core cost trajectory are expected to be downwards as we continue towards our Group target of a cost to income ratio of below 60% over time.

## Slide 16: Simplifying Barclays to improve Group returns

So to re-cap.

We are on track with the plan we announced on the 1st March – simplifying Barclays – with a resilient Core delivering a double digit ROTE and with good progress on Non-Core rundown.

We have successfully completed the first stage of our proposed sell-down of Barclays Africa – and we are now sufficiently confident in our capital flightpath that we have the flexibility to take actions that enhance returns.

Whilst the Group has been simplified, we have maintained a diversification across a range of businesses within the Core – across Barclays UK and Barclays Corporate & International, and also within the CIB across lending and Markets businesses – and we will reallocate capital to improve the returns mix across the Group and deliver attractive Group returns to shareholders.

We are on track to reach our 2016 Core cost guidance, but will continue to focus on delivering further cost efficiencies to reach our Group cost income ratio target of below 60%.

Now I would be pleased to answer your questions.

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