

**Barclays Global Financial Services Conference  
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**Jes Staley, Barclays Group Chief Executive Officer**

*This transcript has been edited by the company.*

Good afternoon everyone and welcome to Barclays' 2016 Global Financial Services Conference.

**Slide 2: Jes Staley, Barclays Group Chief Executive Officer**

I'm delighted that so many clients and peers from across the industry are able to join us for what is the flagship event of the year for our Investment Bank.

Over the next two days you will have the opportunity to hear from the leaders of some of the world's largest banks and insurers, as well as the perspectives of exciting financial services companies.

I would certainly encourage you to engage fully in the interesting, informative – and hopefully robust – discussions which have characterised this gathering since its inception in 2003.

**Slide 3: Barclays' perspectives on the banking industry**

To kick things off, I would like to share with you Barclays take on:

1. How we view today's operating environment
2. The choices and actions we have taken to adapt to that environment; and
3. Why the initial signs show that we are well positioned for the future.

**Slide 4: The banking sector has evolved post the financial crisis**

Compared to the period immediately prior to the financial crisis, today's banking sector requires a completely different banking model. The operating environment has been quite literally transformed by post-crisis regulation over the past 7 years.

Although it appears that the regulatory landscape is stabilising - it is worth considering the huge change that has taken place, and what it means for the future of our industry.

The global regulatory response to the crisis rightly addressed: excessive leverage; insufficient capital; overly risky banking practices; and – importantly – conduct and controls.

As a consequence, since 2009, the average Common Equity Tier 1 ratio across the banking sector has more than doubled, leverage in the system has come down dramatically, and liquidity metrics have strengthened significantly.

While this shift has undoubtedly made banks far safer, it has also put pressure on returns, and thus efficient capital allocation, as well as a focus on cost reduction, have become increasingly critical, particularly in traditional corporate and investment banking.

Put simply, the examination question for banks today has started to shift from one about capital strength and the size and quality of balance sheets, to one about returns and profitability.

Since 2009, returns have markedly decreased, and bank valuations remain under significant pressure – particularly in Europe, with earnings weakness cited as a key driver.

This should be a matter of concern to regulators, as well as to shareholders. Because, perversely, banks whose returns are not sufficiently attractive to investors cannot easily access the capital markets, and thus are simply not as safe and sustainable as they should be to perform their roles, including supporting global economic growth.

At Barclays, we have made great strides in strengthening our balance sheet and have a clear path to meeting our end-state capital requirements.

As a result, we can increasingly turn our focus towards the generation of sustainable – and distributable – returns over time, rather than just capital progression.

That focus on returns has meant some big choices and changes for how we run our Investment Bank, because the model was simply not optimised for returns generation in a post-regulatory reform world.

The global FICC business is a good example of the kind of challenge I'm talking about.

Here revenues have clearly fallen since the crisis, driven by Volcker – which led to reduced proprietary trading – and the European Capital Requirements Directive as well as the US Basel III Final Rules – both of which markedly increased capital requirements for investment banking.

To proceed as we had previously would have been unwise, and unprofitable.

#### **Slide 5: Barclays' focused Corporate & Investment Bank**

So Barclays' response was, not surprisingly, to adjust our model and approach, both in FICC, and more broadly across the whole investment bank. While the results of that effort are encouraging, it remains a work in progress and we learn more every day.

First and foremost, we start from the premise that our clients' needs and wants have really not fundamentally changed. They still require the same essential products and services as they did before.

But what has changed is the way in which these can be safely delivered and generate an adequate return for our shareholders. There is no one right answer about how to respond to this changed world. Different firms have and are choosing different paths. But based on where Barclays' strengths and expertise lies, we have made a number of important choices.

Back in May 2014 we took some very tough decisions – moving £90 billion of investment bank Risk Weighted Assets into our Non-Core unit, as we dramatically simplified our Markets business, positioning it for the new regulatory environment.

Credit and macro trading – the traditional businesses at the heart of Barclays Investment Bank – now use significantly less capital, and are more aligned to our origination businesses.

In fact, Market and Counterparty Credit Risk Weighted Assets in the Investment Bank are now only 13% of overall Group Risk Weighted Assets.

In practice this has meant a greater emphasis on agency trading, where appropriate, and a conscious choice to provide certain products, and do them at scale, while de-emphasising others. In Banking we have been deliberately building our strength in Debt Capital Markets and Advisory, as well as our leading leveraged finance business.

When I joined at the end of last year, I saw the opportunity to accelerate the transition of the Investment Bank and improve its returns to an acceptable level.

As a top tier Investment Bank that provides the link between providers and users of capital globally, we are focused on the world's deepest capital markets, London and New York with an optimised and focused international network to help service our clients globally.

But being global does not mean doing everything everywhere; for example we discontinued our Asia Pacific local cash equity products, and focused our physical presence in Asia to China, Hong Kong, India, Singapore, and Japan.

We sharpened our attention to the geographies and products where we have scale and advantage, in the process closing nine countries.

Another key decision we took was to combine our Corporate and Investment Bank. We did so because we believe that this combination will strengthen these key franchises through further penetration of our Corporate Banking products with our investment banking clients, and vice versa. It will also generate opportunities for return improvements as we make better use of our lending balance sheet, and drive cost efficiencies through the optimisation of the coverage model.

**Slide 6: Evidence of Barclays' success in repositioning the Corporate & Investment Bank**

The early indications are that we made the right calls.

As we have seen most recently, in Q2 we were up 7% in banking fees, particularly in advisory and debt underwriting, with the latter significantly outperforming the market.

We continue to be the highest-ranked European bank on fee share both globally and here in the US, and we advised on three of the top five M&A deals to close in the last quarter.

The second quarter also saw improved equities performance in the Americas. While this was offset by declines in EMEA and APAC, some of that was a consequence of the deliberate simplification of parts of our business.

Turning to our credit trading business, in Q2 we reported a 23% increase in revenues and in Q1 it was up 46% year over year. The latest Coalition data has us as top 3 globally in major credit products including High Yield, Loan Trading and Emerging Markets Flow Credit.

Having adapted our operating model, I believe we are well positioned in an asset class which in my view is going to continue to be very attractive for the foreseeable future.

And looking more broadly at our Markets division – we do believe this business has evolved from a balance sheet led model focused on revenues, to one that is more capital efficient, adapted to the regulatory backdrop and with cost reductions coming through.

Interestingly, the results of all of this effort have not only been improved returns, but also a much lower beta to the markets. Our returns now are much more closely correlated to volumes, rather than the direction of the market. And overall the performance of our CIB is simply less volatile than that of our other investment banking peers. These are important attributes in our profile, and worth highlighting.

So I am optimistic – both about the industry in the post-regulatory reform era, as well as how Barclays is positioned within it.

While there is doubtless much work that remains to be done, our top-tier Investment Bank, with its scale, strength and global reach provides a cyclical counterweight to our consumer businesses. And it is for these reasons that a right-sized investment bank remains a core franchise for Barclays, and why I am personally committed to nurturing that franchise within the Group.

Now, while Barclays has adapted well to the changes in the regulatory environment, as well as to monetary policy, it's worth considering the broader impact of these trends on the health of capital markets more generally.

### **Slide 7: Credit market evolution post the financial crisis**

Looking more closely at the credit markets for example – where this has had a particularly significant effect - you can see the emergence of some very interesting dynamics.

First, post-crisis, dealers cannot allocate as much balance sheet to trading given capital constraints, and at the same time buyers of credit cannot get leverage at levels like they could in the past. The result has been a deterioration in liquidity and higher transaction costs.

Second, bid-offer spreads remain elevated across both high yield and investment grade bonds relative to pre-crisis levels.

The poor liquidity is evident in the higher price impact of trading activity. By our estimates the price impact is twice as high now as it was pre-crisis.

And third, trading behavior has evolved in response to higher transaction costs, with turnover reducing significantly and volumes becoming more concentrated.

More trades are now done with the dealer acting as an agent or intermediary rather than taking principal risk. No longer are sell-side dealers as willing to step in and provide long-term liquidity themselves.

And it's worth noting that given the change in the liquidity profile of the credit markets, to the extent that investment banks move to an increasingly agency-driven model, as we have done, this shifts the risk of illiquidity from the sell-side to the buy-side.

How these changes play out in the long-term remains to be seen. However, for our part, Barclays is well positioned from a risk standpoint, allocating balance sheet to clients efficiently under the new rules. And of course, we also benefit from higher bid-offer spreads, which are evident in the market and are RoE accretive for us.

We look forward to continuing to be a leading player in credit in the months and years to come.

Stepping back now to look at the broader Barclays Group.

### **Slide 8: Transatlantic Consumer, Corporate & Investment Bank**

As a transatlantic Consumer, Corporate and Investment Bank, with revenue streams across consumer and wholesale, Barclays benefits from significant diversification advantages – which are particularly valuable in the period of greater uncertainty we are seeing after the Brexit vote.

On the consumer side of our Group, we will continue to lead with technology to engage with millions of existing and future consumers in the United Kingdom, and with millions of customers of Barclaycard across the United States and internationally.

In Barclays UK, our strategic focus on innovation and automation is rapidly transforming the way in which we interact with our 24 million customers, and deepening our relationships as well.

For example our market leading position in digital banking has resulted in a 50% increase in digital payments and transfers over the last couple of years, creating further opportunity for structural cost reductions, while enhancing the customer experience.

We are the second largest merchant acquirer in Europe, and deliver extensive payment solutions, such as mobile and in-store payment acceptance, point-of-sale finance, and credit card business solutions.

And in the UK, Barclays processes nearly half of the nation's credit and debit card transactions. We see Payments as a key strategic business for Barclays, which differentiates us from many of our peers, and we are excited about its potential.

### **Slide 9: Our strategy is on track and showing encouraging progress**

Unlocking the full returns potential of the strong and diversified franchises which make up Barclays is our focus, and we are clear on the priorities which will deliver that outcome.

First, we will continue to develop our Core businesses, which are already performing very well, producing a combined underlying Return on Tangible Equity in the second quarter of 11.0%.

Both Barclays UK and Barclays International are already demonstrably high quality franchises, with Barclays UK producing an underlying 18.4% return on tangible equity in the second quarter, and Barclays International posting 11.9% return on tangible equity.

Second, we need to close Non-Core as fast as possible, and remain firmly committed to doing so in 2017. As a signal of our confidence in achieving that goal, we provided additional guidance for costs in 2017 to be in a range between £400m-£500m in Non-Core – and this is significantly lower than the level expected in 2016. The negative income in Non-Core will also be markedly less in 2017 than in 2016.

We remain on track to reduce Risk Weighted Assets in the unit to around £20 billion by the end of 2017 from £47 billion at the half year. And remember we started off with £110 billion of Risk Weighted Assets just over two years ago in Non-Core, so we have taken out nearly 60% of that total to date.



The second half will include significant further progress in Non-Core run down. In August we closed the sale of our Indices business to Bloomberg and the sale of our Italian retail network to Mediobanca. We anticipate closing the sale of our cards business in Iberia and the sale of our Wealth business in Asia shortly, while we continue to make progress towards a sale of our French retail business. We are also steadily reducing Non-Core derivatives.

In summary, we remain very confident of closing Non-Core in 2017- next year – and reducing the drag the unit creates, so that Group returns can converge towards Core returns in 2017.

Third, we will stay focused on cost reduction, including meeting our target of £12.8 billion for Core expenses in 2016. As part of our focus on cost, we have now taken headcount down by some 13,600 people in just 9 months. That's a net reduction.

We remain committed to attaining a long term Group cost-to-income ratio of below 60%. It is worth noting that our underlying cost to income ratio in the Core businesses in Q2 was already 57%, so you can certainly see the potential for us to get to that longer term target as Group performance converges with Core.

Fourth, we have made progress on Africa. In May we began the sell-down of our interest there, disposing of 12.2% of the equity capital in a significantly over-subscribed and successful secondary offering.

Given the success of our initial transaction, and the strong level of interest we are getting, we have increased confidence in our ability to achieve deconsolidation of Barclays Africa over time.

Fifth, capital progression – and our strong 11.6% CET1 ratio print at Q2 shows our capacity to generate capital from our Core businesses. The impressive profitability of these businesses today represent the future of Barclays free from the drag of Non-Core tomorrow.

Combined with the capital accretion expected from the continued Non-Core rundown and Africa sale, we have increasing confidence in our ability to meet our capital progression goals.

We have said before that the journey towards our end state CET1 target of around 12.5% will not be linear, and this continues to apply. But we are now in a sufficiently positive position to be able to focus more on enhancing returns rather than prioritising capital.

#### **Slide 10: Barclays is open for business**

Let me turn now briefly to a subject that I know is of particular interest - the impact of the Brexit vote on Britain, and on Barclays.

It is true that the vote has caused some caution over the UK economy, and certainly as to the future framework under which we and other banks operating through London will do business in continental Europe.

But we continue to believe that our plan for Barclays is the right one, and see no reason to adjust our strategy, or the pace of its delivery, in light of the Brexit vote. To be clear, we are realistic about the potential effects of the vote on the UK economy but we are not unduly pessimistic about them.

And there have been some encouraging signs that consumer confidence may be proving more resilient than at first thought. Our Barclaycard UK consumer spend data for August showed a 4.2% increase over last year, the highest year on year increase since in consumer spending in our cards since July 2015.

The August UK composite Purchasing Managers' Index exceeded expectations as it rose to 53.6 from 47.6 in July, driven by both Manufacturing and Services. It is also encouraging to see some analysts revise their 2016 and 2017 GDP forecasts upwards from initial levels.

Against this backdrop Barclays is very much open for business – and we have been since June 23<sup>rd</sup>. We will carry on lending to customers and looking after their savings; we will continue to help businesses to invest and to grow; and we want to help clients to access the capital markets and trade.

In August alone, we have helped over 37,000 customers with their personal borrowing needs in the United Kingdom, and we have completed nearly £1 billion of unsecured personal lending since the Brexit vote.

While house purchase volumes have slowed in the UK, our market share in mortgages is up 1% on the same period last year, and since June 23<sup>rd</sup> we have received £4.8 billion of mortgage applications, helping nearly 25,000 customers in the UK.

On the investment banking side, following the Brexit vote, we brought the first European corporate bond – Deutsche Bahn’s €750 million bond – and the first supranational bond – the European Stability Mechanism’s €5 billion dual tranche - to the markets.

And we have helped our clients take advantage of the low interest rates and strong demand following the Bank of England’s corporate bond purchase announcement raising £1.8 billion for Vodafone. We also closed the largest IPO of a state-owned company in Italy this year, right after the Brexit vote.

We are encouraged by this activity but of course, as you know, September is always the swing month for Q3 so it is too early to call the quarter.

We will know more as the weeks go by, and it is too early to call the precise impact of the Brexit vote, but what I would say is that our customers and clients are still looking to us for advice, for financing and for partnership. And Barclays intends to staunchly support them through this period of uncertainty.

Before I conclude my remarks and open it up to Q&A, I want to briefly touch on the question of ‘passporting’ and how the Brexit vote might affect our European operations.

Our investment banking activities in Europe are important to Barclays, and to our strategy, and we are committed to remaining a strong participant in that marketplace.

Any political settlement should ideally retain access to the European capital markets by UK regulated banks, as well as reciprocal continued access to the hugely important British capital markets for European corporates and European banks.

Nevertheless, we recognise that there is a range of possible outcomes of the negotiations in the coming months and years, and so we have looked closely at our options for what we would do in various scenarios.

Having done that work, we are confident that we have multiple avenues for how we might continue to serve our customers and clients regardless of the outcome of Brexit.

These include expanding the scope of operations of our Irish subsidiary, local licensing of branch operations in the EU, and the use of third party access frameworks like the incoming MiFID2 rules.

But I have to say that compared to the complexity of standing up our Intermediate Holding Company here in the US, as we did just this July 1<sup>st</sup>, let alone establishing a ring-fenced bank in the UK from scratch, any of the options we might need to pursue would be significantly less costly as they are on a much smaller and simpler scale.

In summary then:

Our confidence in Barclays' ability to succeed in this new operating environment is high. Over the past couple of years we have made a number of deliberate choices that I believe position us very well to succeed.

And this is borne out by the evidence. Our Q2 results showed a strategy that is working, with a really pleasing performance in the Core, and the acceleration of the Non-Core rundown I talked about in March – and again in July.

And finally, let me reiterate that our vision of building a transatlantic consumer, corporate and investment bank, with global reach, remains the right one, and we are wholly committed to seeing it realised.

Thank you, and now I'll be happy to take your questions.

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