Jes Staley, Barclays Group Chief Executive Officer

Barclays Global Financial Services Conference

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Slide 2: Jes Staley, Barclays Group Chief Executive Officer

Good afternoon everyone and thank you for joining us at Barclays' 2017 Global Financial Services Conference.

Over the next two days, you will hear interesting and thought provoking views from leaders of some of the world's largest banks, insurers and financial services companies, and I know you will all derive a great deal of value from those presentations.

Before I get into my own remarks today, I first of all want to acknowledge that we meet, on what is the 16th anniversary of the attacks on the World Trade Centre, on the Pentagon, and the downing of United flight 93. I am sure that all of you - like me - remember the lives lost in those terrible events on this day each year. I know you will want to join me in expressing our ongoing condolences to the families of the victims. Many of the families will be here in New York for the memorial events this morning, who feel that loss most keenly. They are in our thoughts and prayers.

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This afternoon I want to focus on two areas in my presentation.

The first is an update on Barclays' strategy, where the business stands today, and in particular the central priority we attach to the improvement of Group returns, and the plans for meeting our target, of greater than 10% RoTE.

And second, I want to provide a deeper insight into the exciting and ground breaking work we are doing with our c.50,000 people strong Service Company, which we established on the 1st September, and how this ServCo will fundamentally transform the future of our bank, helping us to drive returns higher for our shareholders, as well as improving how we serve our customers and clients.

Let me turn first to a reminder of some of the key achievements made in the second quarter, a very important quarter for us in terms of the execution of our strategy.

Slide 3: Completed Barclays' restructuring

Q2 saw us complete two key planks of the strategy we set out in March of 2016; both ahead of schedule.

First off, on the 1st of June, we sold a nearly 34% stake in Barclays Africa. This represents the largest secondary offering ever executed in the continent.

Ahead of the Q2 results, we were pleased to be granted permission to apply proportional consolidation in respect of Africa, to a level of just over 23%. As a result our capital benefited by 47 basis points in the second quarter.

This - coupled with organic capital generation in the Quarter - meant we reported a 13.1% CET1 ratio. That is of course at our end state target of around 13%.

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We will realise a further 26 basis points in due course from this transaction - half of which is expected to come later this year, and the rest on formal regulatory deconsolidation, expected in 2018. This takes our pro-forma CET1 ratio to 13.4%, as at June 30th.

Beyond this capital benefit, at a stroke, we have radically simplified our business, removing significant complexity, and taking a major step towards our future as a balanced and diversified Transatlantic Bank.

The second major milestone delivered in the quarter, was the completion of the accelerated rundown of Barclays' Non-Core. Accelerating the rundown of Non-Core required hard choices, and consumed a huge amount of management energy, and focus.

But be in no doubt, that in doing so, we have enhanced shareholder value in the Group, by bringing forward the date, when we can all benefit from the full earnings power of Barclays.

These two moves were critical steps in the normalisation of our business, and collectively mark the end of the restructuring of the Barclays Group.

Slide 4: Transatlantic Consumer, Corporate and Investment Bank

As a result, what you see today is the reshaped business: a simplified and diversified Transatlantic Consumer, Corporate and Investment Bank.

Two strong business units in Barclays UK and Barclays International, underpinned by an efficient, effective and innovative Service Company, which I will cover in a moment.

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Barclays UK generated an underlying RoTE of a little over 20% in the first half, as we continued to focus intently on enhancing our customer experience, through automation and digital innovation, while supporting households and businesses across the UK.

And Barclays International's RoTE was 12.4%, demonstrating the inherent diversification within this business, as we saw continued growth in our international cards and payments business, and improved returns in the Corporate and Investment Bank.

What we have now is our geographic footprint for the future, and the business lines that we will be in, going forward.

Our performance is now driven by some 81,000 people, rather than 141,000, as it was when I started here in December 2015.

We have also carried on strengthening our management team, and continue to attract exceptional talent to Barclays, as you can see from recent hires including:

- Stephen Dainton as Global Head of Equities, who joins us from Credit Suisse
- Chris Leonard as Head of US Rates Trading, from Alphadyne Asset Management, and previously JP Morgan
- Just last week we announced a new Head of Macro Trading, Michael Lublinsky, who joins us later this year from Brevan Howard
- And I'm also pleased to say that Barry Rodrigues will join us in November as CEO of Barclaycard International. Barry was most recently Head of Digital Payments for Citi's Global Consumer Bank, and he brings a wealth of experience with him

The completion of our restructuring, and the strength of our capital base today, means that we can now turn our full attention, and all of our organisational energy, towards what matters most to our shareholders: and that's improving Group returns.

That goal – driving our returns up to an acceptable and sustainable level - is the number one priority for this Management team.

Looking through the charges associated with the Africa disposal and PPI, we produced a Group RoTE in the first half of 2017 of 8.1%. While that is more than twice the returns posted last year on a comparable basis, it is still below our cost of capital, and therefore we've got more to do.

Over the past couple of years, we have established a track record of generating returns around double digits in our Core businesses, whilst at the same time increasing the equity allocated to the Core.

We now need to produce these returns at the Group level.

Slide 5: Targeting Group RoTE of >10%

At Q2 I announced that we were formally setting a target of achieving a greater than 10% Group Return on Tangible Equity, over time.

We have three principal levers which underpin our confidence in delivering on that target.

The first lever, and perhaps the most obvious, is that many of the costs of our restructuring will fall away over the next year and a half:

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- Costs from our Non-Core businesses and assets will continue to decline, following the unit's closure;
- Indeed, we announced the completion of the sale of our French retail business at the start of this month, further reducing annualised costs by roughly £150 million;
- Costs associated with the set-up of the UK ring fence bank will also disappear by the middle of next year;
- and there will be an end to the restructuring costs associated with the broader reshaping of the company – including the headwind from the compensation changes we announced late last year.

Collectively, these savings will amount to roughly £1 billion by 2019, versus the 2017 base. The work to achieve these savings is largely done or in flight. We now need to maintain discipline and focus, to ensure that our returns benefit fully from these reductions in costs.

The second lever is our plans to improve the returns in our Corporate and Investment Bank.

We have done a lot of work over the past two years repositioning that business to a much better balanced model, focused on client intermediation, and on building strength in Origination.

In Q2 we continued to make share gains in the Investment Bank.

- In Banking we finished the first half at the highest global fee share in four years of 4.7%, ranking number 6.
- In Debt Capital Markets we ranked number 4 globally - up 110 basis points from the end of 2016 - our highest share since 2009.

Meanwhile in Markets, Coalition's latest results for the first Half, have us ranked on a global basis as #4 in Flow Credit, #2 in High Yield trading and #3 in Fixed Income Financing [based on our product set].

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But today the CIB is delivering an RoTE which is still below the cost of capital, and below where we want it to be. We intend to improve these CIB returns in two principal ways.

The first is through the optimisation of CIB resources – in particular RWAs - but also term funding costs, and using some of the leverage balance sheet capacity we now have.

I talked at Q2 about the re-allocation of around £20bn of our corporate loan book, which is currently delivering inadequate returns, into higher returning CIB clients, and products. This could be through lending to corporate clients at higher hurdle rates, or in Markets, where Tim Throsby and I can see prospects for growing revenue and returns.

Many of you will know that over the past few years, we have aggressively reduced our leverage balance sheet – both in our Core CIB and Non-Core unit.

With our leverage ratio at 4.8% as at the 30th of June, we are no longer leverage constrained. And that means there are compelling opportunities, with many clients - some of them in this room I hope - coming to us, looking for financing.

For example, in fixed income financing, where we have had a consistently high market share, returns are attractive and we are confident we can drive revenues even higher.

However, it is in parts of equity financing where we see the biggest opportunity to gain share, particularly in synthetic financing. Performance here would be transformed simply by regaining the market position we held just a few years back.

Just to be clear – I am not talking about increasing the overall capital in the Corporate and Investment Bank through these plans - we have enough capital allocated to this business today.

Allied to this effort is a confidence that wholesale funding costs for the Corporate and Investment Bank are expected to fall over the next few years, driven very much by revised issuance assumptions, and improvements in funding spreads.

Second, we are going to stay focused on improving the cost efficiency of our CIB, creating capacity for the strategic investments we are making, particularly in technology. I'll cover how we're going to do this when I talk about the impact of our Service Company shortly.

But the returns benefit from the combination of these elements - optimisation of CIB resources and improved operating leverage - has the capacity to drive Corporate and Investment Bank returns to double digits, based on where we are today.

The third lever of our overall plan to get Group returns to greater than 10%, is a continued focus on cost efficiency and operational effectiveness right across Barclays – and this is what I want to focus on for the rest of my presentation.

Slide 6: Material reductions in our cost base, creating capacity to self-fund investment in the business

One of our key Financial Targets is to deliver a Group Cost to Income Ratio of less than 60%. In the second Quarter that ratio stood at 67%, excluding the £700 million charge for PPI.

The £1 billion of savings I referred to earlier will take us a very long way towards our sub-60% target.

But beyond that, we have a number of major initiatives, driven by our Service Company, which will help us to get there faster.

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Slide 7: Service Company enables the delivery of world class services to our customers and clients while driving efficiency gains

As I mentioned, the Group Service Company – known within our business as ServCo - was formally established 10 days ago on the 1st of September, and will be fully operational by April of next year, when we complete the build-out of the ring-fenced bank.

The ServCo, led by Paul Compton, is the strategically integrated hub, through which we now deliver operations, technology and functional services, to Barclays UK and Barclays International. It will radically reduce duplication, and improve efficiency and operational effectiveness across the Group, driving shareholder value, and a more consistent and improved experience for Barclays' customers.

Slide 8: Facilitating simplified and standardised operating environments to create greater operational leverage

ServCo positions Barclays at the forefront of industry change and innovation, with five clear benefits:

- First, the ServCo will allow the front line businesses to focus even more on their customers and clients.
- Second, moving from a business unit centric approach, to a Group-wide approach, delivering critical functions and services horizontally, rather than through legacy business units.
- Third, further simplification of the Group's structure, with the ServCo, sitting in between Barclays UK and Barclays International – our future ring-fence and non ring-fence banks.
- Fourth, greater global resilience, through a holistic approach to cyber, security and controls.
- Fifth and finally, a preeminent platform for innovation.

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We have organised all of our operations, technology and functional services into what we call “transaction cycles” - 29 in total, through which we will now manage the bank.

A transaction cycle represents front to back processes and solutions, which are standardised and streamlined, and operate horizontally across the Group. You may have heard other firms talk about “centres of excellence”; the concept here is similar.

When I think about how banks, and indeed other corporations, were run in the past, the focus was on lines of businesses built around a client segment.

Now – with our ServCo – we will essentially be treating processes as lines of business, not just client segments.

So, taking Payments as an example: rather than approaching our extensive Payments capabilities via each separate business unit or end-customer, we now treat Payments as a single transaction cycle, Group-wide, regardless of the business unit in question.

This will enable us to realise the full potential from our Payments capabilities which span the entire waterfront - from consumer retail at the one end, to corporate payments and FX at the other end of the spectrum.

This offers exciting opportunities for growth as a result.

There is a lot of activity and potential in the Payments space and we are very well positioned within it.

Slide 9: Managing the bank through transaction cycles, driving savings and capacity to self-fund investment

On this slide you can see the most significant transaction cycles, and the key efficiency drivers for each.

At its simplest level, it's about how we reduce our people and technology costs. One example - currently, the ratio of employees to 3rd party technology workers is roughly 50:50 at Barclays. We intend to take that to around 75% internal, to 25% external, over the next few years.

As you'd expect – a permanent employee costs considerably less than a 3rd party contractor. By Easter 2018, we plan to replace 2,300 3rd party workers with 1,600 new technology hires internally, at a much lower cost to the business. This will create meaningful annual savings for the bank.

And, importantly the Intellectual Property inherent in their work, remains within Barclays.

We are also intending to move a significant number of our technology applications to cloud providers by 2019, allowing us to reduce the number of Barclays-owned data centres to just 4 globally, making a significant reduction to our real-estate footprint at the same time.

I've talked previously about integrating 10 separate fraud handling departments, each with different approaches and resources, into just one.

Treating Fraud as a single transaction cycle, will improve the customer experience, as well as minimise the cost of fraud by taking a firm-wide approach.

It also allows us to build out new capabilities, including machine learning, to detect fraud – for example by analysing customer behaviours when withdrawing cash from an ATM machine, and detecting when behaviours change, to prompt customer verification before a potential fraud takes place.

And by having one integrated customer view for Collections across multiple secured and unsecured products in the UK, it will dramatically simplify our processes, and improve the overall customer experience.

We are also aiming to automate 100% of our Collections administration processes.

It's the same story for Contact Centres, Cyber Security, or Digital – ServCo will enable us to create "scale plays" of these systems and processes which straddle our business entities, driving efficiency, and reducing duplication.

Slide 10: Creating capacity for investment

As well as generating further reductions in the underlying costs of running the bank, we expect all of this effort to also free up resources for re-investment, in areas which can drive growth.

A good example of this is where we are working hard to modernise our technology architecture, and I have talked repeatedly about why I regard that, as a crucial competitive advantage for any bank, hoping to prosper today.

That does mean some upfront investment as we:

- increase automation;
- ramp up use of the cloud;
- simplify the platforms for data;
- improve resilience and security for customers and clients;
- and deploy innovative technologies.

But what it leads to are structurally reduced costs over time, and permanent efficiency gains across all businesses and functions. A great example of this will be the migration of 90,000 Small and Medium Enterprise customers to our new merchant acquiring platform, which we've dubbed 'bPaid'.

The roll-out of 'bPaid' will see us replace about 80% of the back office domain in the merchant acquiring business in the UK, and we will retire 14 separate legacy systems in the second half of 2018 – some of which have been around for 30 years. The efficiency gains from a programme like this – which has been 3 years in development – are obvious.

As well as technology and systems, we also want to invest in growth areas in our businesses.

Take US cards for example, where we are now the ninth largest issuer by balances, and have been one of the fastest growing card companies.

We have 24 very profitable partnerships with leading brands like American Airlines, Apple, and the NFL.

At the Q2 results we announced a deal with Uber to provide an innovative co-branded credit card to their customers later this year. This is a fantastic growth opportunity for Barclays.

In Barclays UK we are also seeing exciting opportunities - we have 24 million customers, nearly one in every two adults in the UK.

And we have now integrated Barclaycard UK, with its 10.5 million customers and £16bn of loans and advances, into Barclays UK.

So our strategy for that business, is to build meaningful relationships with our existing customers, rather than growing the customer base, and Ashok and his team have exciting plans to do just that.

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Slide 11: Leading on Fintech innovation through Rise

And last but by no means least, Innovation is a Transaction Cycle.

We are constantly exploring ways in which we can use innovative technology to enhance the experience of our customers and clients.

Recently, for example, we became the first high street bank in the UK to offer a voice payment facility, using Siri on an iPhone.

In addition to the ideas we generate, we are starting to integrate, and now also take equity stakes in, some of the FinTech start-ups that we are supporting, through our global accelerator, taking place in our 'RISE' workspaces across the world.

In fact, the latest cohort of FinTech start-ups will start in October right here in our New York RISE, located downtown, in the Flatiron district.

This allows us to remain nimble in developing the best new FinTech ventures, and applying them as solutions to innovate our own businesses from within.

An example of one of these companies is Simudyne, from our most recent London programme. Simudyne is a 'simulation as a service' platform, that uses predictive analytics. This ground breaking technology is currently being leveraged across Barclays, and enables us to model multiple scenarios on huge data sets, so we can understand our risk, exposure and options.

Or take Chainalysis, a New York accelerator alumnus, which provides governance for Bitcoin transactions. We used its services to enable Barclays to be the first bank in Europe to bank a Bitcoin company. It has also recently signed a contract with the IRS to monitor possible tax avoidance on Bitcoin transactions.

The sum of all that I have just covered, is that ServCo is going to be a critical part of the next stage of Barclays' evolution.

Its performance will be central to our story going forward.

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Slide 12: Group financial targets

So finally, in closing, let me reiterate where we are as a company.

We have made great progress in executing the strategy we laid out in March 2016, culminating in our exit from Africa, and the closure of the Non-Core Unit, in the second quarter.

We have reached our target end-state capital level of around 13%, with a 13.1% CET1 ratio at 30 June – and with another 26 basis points to come from Africa – a proforma 13.4%.

At the full year results announcement early next year we will provide an updated capital management policy for the Group, including our dividend intentions. And I very much look forward to sharing that plan with you.

Now we can focus intently on improving Group returns to our target, of above 10%.

I've outlined today some of the key levers we will use to achieve this, such as the £1 billion cost take out, and improved CIB returns.

But for me - as I hope is clear from this presentation – perhaps the most significant initiative happening at Barclays right now, is the establishment of the ServCo. The ServCo will simply transform how we run the Group, driving benefits for our shareholders, clients and customers.

With that, let me thank you for your time, and I would be happy to take questions.

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