Morgan Stanley European Financials Conference

Jes Staley Presentation (amended in places to improve readability only)

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Jes Staley, Barclays Group Chief Executive Officer

Good morning, everyone, and thank you, Colm, for asking me to address your conference again this year.

In March 2016, we chose to take a series of strategic actions that have been our focus these past two years. We chose to accelerate the run-down of Barclays Non-Core and complete it by the end of 2017. We chose to cut the dividend in half for two years to fund that acceleration. And we chose to sell down our controlling interest in Africa.

Now that Barclays has completed its restructuring, it's worthwhile remembering why we made the strategic choices we did.

First, they allowed us to organically recapitalise the company, without asking our shareholders for more capital. At the end of 2015, the company printed a CET1 ratio of just 11.4%. That level was insufficient and we knew we had to significantly increase our capital strength.

By making some hard choices about our long-term model early on, we were able to develop a careful and deliberate capital plan. I'm pleased to say that one month ago, we printed a CET1 capital ratio of 13.3% for the year ending December 2017. That level of capital is comfortably within our end-state target range of around 13%. And while we have some residual legacy conduct and litigation matters still to resolve, Barclays is now in a healthy capital position.

Second, our choices in 2016 were designed to bring forward the date by which we could generate attractive and distributable returns, with strong growth potential for the future. Back then, Barclays had not generated retained earnings to support capital distributions for the previous four years. The company was eating into accumulated profits to pay dividends.

Today, Barclays is in a position to generate sustained statutory earnings that can support material distributions to our shareholders. As evidence of that strength, we announced that we plan to pay a dividend for 2018 of 6.5p. While this is an important first step, it still represents a fairly modest distribution. It is our firm intent to increase our distributions and to supplement the ways in which we distribute excess returns, including through the use of share buybacks.

Third, and perhaps most important to our long-term future, our choices in 2016 simplified the Group's structure to create a clean operating model – one that was scalable and could be run more efficiently in the long-term.

In 2015, Barclays was highly siloed, operating in a large number of geographies, with many disparate businesses, and all reliant on multiple, different operational and technology systems. This model was inefficient, expensive, and created redundant costs which crowded out the company's ability to strategically invest in our businesses.

Because of the choices we made, we now have a much simpler company – a strong, diversified, Transatlantic Consumer and Wholesale Bank – and a bank which operates on the shared foundation of our Service Company model. That model standardises our core processes across everything from cybersecurity to payments.

For example, the Service Company lets us transform 75 fraud handling applications to just three core platforms. It allows us to halve our Collections locations from eight to four. It allows us to consolidate our leadership position in the digital delivery of services to customers and clients. And the ServCo model also makes it much more straightforward for us to add new product capabilities in our businesses quickly and efficiently. Without the choices we made in 2016, we could not have implemented this model.

In 2016 and 2017, we demonstrated that Barclays' management team could execute on an extraordinary restructuring and redirection of this bank. We have eliminated some £95bn of risk-weighted assets. We have reduced costs, since 2013, by some £6bn. And our overall payroll is down by 56,000 heads since I joined the firm a little over two years ago.

The restructuring of Barclays is now complete. And we find ourselves in 2018, for the first time in many years, with a clean operating model and we are now set to drive higher sustainable returns. As you know, we have set targets for Group returns of greater than 9% in 2019, and of greater than 10% in 2020. These are based on a CET1 ratio of around 13%.

In 2017, Barclays generated a Group RoTE of 5.6%. So to meet our 2019 target, we have to improve that figure by some 350 basis points, and we are highly confident in our ability to do so. Half of that improvement is expected to come from cost reductions, non-recurrence of Non-Core losses, and better balance sheet efficiency.

First, our operating expenses will continue to come down. Last year, we spent a little less than £14.3bn. For 2019, we have targeted Group costs of between £13.6bn and £13.9bn, with a Group cost: income ratio of less than 60% in that same timeframe.

We will be helped in hitting this by the costs associated with restructuring our business falling away. For example, in 2017, we spent some £400m on structural reform. Those costs will cease during the course of 2018 as we complete the UK ring-fence.

Second, we will also see PBT improvement from the non-recurrence of Non-Core losses at the level we experienced in 2017, which you'll recall amounted to roughly £1 billion last year.

And third, we have the opportunity to optimise our balance sheet, which will drive significant return improvements. We can, subject to regulatory approval, retire certain legacy capital instruments that are a drag on profitability. For example, last year we redeemed $1.4bn of preferred shares. That alone is saving us around $100m a year.

We will have the opportunity to take similar actions in other instruments in the coming future. Such actions, combined with a directional reduction in the wholesale funding costs, means that over the next couple of years, we expect around 60 basis points improvement in our term funding costs.

These factors should get us about halfway to our returns target. The other half of the 350 basis points is expected to come from additional top-line growth, spread roughly evenly between our Consumer and our Wholesale businesses.

On our Consumer side, we expect US cards to continue to post strong growth. In that business, net loans and advances grew 12% last year, excluding the effect of the sale of higher-risk assets in Q1. While impairments were down 23%, reflecting our repositioning towards a much lower risk portfolio.

The high quality American Airlines and JetBlue cards have been growing well in the last couple of quarters and initial take up of the Uber card, since its November launch, is quite encouraging. So, we are projecting annual growth in total receivables of around 10% across co-brand and our own brand cards in the US over the next few years. This will ensure we get more than our share of projected growth in overall card balances in the US.

Barclays UK has also seen continued growth, particularly in both deposits and mortgages, with margins proving resilient in a very competitive environment. Our mortgage book grew £1.4bn in the fourth quarter, on top of £2bn of growth in the third quarter.

Finally, modest improvement in our Wholesale businesses is expected to be the last piece of the puzzle. We now have the leadership and technology in place to drive performance in our Corporate and Investment Bank. And we are allocating capital and balance sheet more productively.

Our restructuring within the CIB has been deliberate – right-sizing the business to the opportunity and focusing on areas of competitive strength. For example, we are in the process of reallocating corporate lending risk-weighted assets, which do not currently deliver an acceptable return on capital, to better-returning clients and products and particularly in areas of the Markets business which show high marginal returns. And we are already seeing evidence that this effort is producing results.

As I mentioned at the announcement of our full-year results last month, we were pleased with the start to 2018 and in particular in Markets, where income was tracking above the level seen in the corresponding period in 2017, both in dollar and sterling terms. Despite the FX headwind, I continue to feel good about how our Markets business is doing.

This performance is not just a product of market volatility. We are seeing evidence of successful development of our Markets franchises, with our client balances in Equity Financing, for example, growing particularly well. Much of this improvement has been driven by our renewed ability to invest in technology, such as in our electronic trading platforms.

As an example, we successfully launched our Electronic Rates platform for US Dollar swaps in the third quarter of last year. And we saw immediate growth in our market share on Tradeweb, where we went from less than 1% to over 10%. This ability to reinvest in our platforms and systems, which we had lost in recent years, is created by efficiencies driven by the ServCo. It is one of the key reasons why we're so confident in improving the performance of our businesses.

We have also made progress in Banking. And momentum has continued into 2018, as we continue to win major mandates. For example, we were delighted with our role as principal M&A advisor to CVS Health, and to be a lead on their recent record-breaking $40bn bond issue.

Based on what we're already seeing, I'm increasingly positive that we will be able to deliver demonstrably improved performance in the Corporate and Investment Bank over the next two years. That improvement, taken together with the prospects of our Consumer businesses and the funding actions and cost reductions, should help you to understand why we feel confident about our ability to meet our return targets.

Finally, reinforcing all of this, we are also benefitting from two significant tailwinds: a higher rates environment and US corporate tax cuts. Neither of these were assumed when we set our original return targets.

So, it's been a challenging two years for Barclays. We had to make some difficult choices and engage in some formidable restructuring. But today, we find ourselves with a portfolio of profitable businesses, a clean operating model, a strong capital position, and with historic drags largely eliminated as a result of those choices that we made.

And because of all this, we are driving improved returns today. Those increasing returns, and our prospects for growth, have allowed us to restore the dividend and will mean we can look forward to returning an increasing amount of capital to shareholders, both through the annual dividend and via other means of return such as buybacks.

Alvaro Serrano, Analyst at Morgan Stanley

Yes. Thank you very much, Jes. I've got a few questions, but I think before my questions, maybe we have a polling question that I think should be interesting to open up the debate.

Which of the following would make you want to buy Barclays Bank shares most?

1. A recovery in Investment Banking revenues
2. The delivery of the £13.6bn to £13.9bn cost target
3. Normalisation of the dividend pay-outs
4. Share buybacks
5. Brexit uncertainty cleared

It's pretty evenly split, but it sounds like recovery of Investment Banking revenues.

So with that, you've made reference in your presentation to the good start of the year, up in US dollars and also in pounds. It has been a bit of a rollercoaster, at the start of the year, that's the feeling in the market. And now, we're debating, is there going to be a commercial imposed position of tariffs.

Can you maybe give us an update on your impressions of how this year has started and how you think the general revenue environment looks for this year, given all those uncertainties and the markets being a bit of a rollercoaster?

Jes Staley

My own view is, on the good news side, we have quite strong economic growth globally. And it's been a long time where, from Asia to the Americas to Europe, there has been a consistently strong growth forecast and performance.

What's interesting about that, for me, is while the overall GDP is quite strong and global unemployment is down very low, particularly in the US and in the UK, we still have a monetary policy, which is coming out of a long process of dealing with a deep recession.

And I think there needs to be a closer equalisation of monetary policy and interest rate policy with the economic growth that we're seeing. And managing that dynamic, whether the European Central Bank, the Bank of England, the Fed or the Bank of Japan, is going to be quite a challenge. But we do have that underlying economic growth that you all should take comfort from.

What I said a couple months ago – actually, before the recent volatility – was the other thing I found a little challenging, is that we were hitting all-time highs in the equity markets. And last year, almost every industry was up close to 20% or better. But we're at historically low levels of volatility. And one of the things that we saw was a lot of that low level of volatility was because people were shorting volatility to try to generate greater returns in a low interest rate environment.

With the amount of short interest we saw in the volatility markets, if that began to move, the velocity of change was going to be quite dramatic, because there is an inconsistency in where the equity markets were and how they were performing and where the volatility was in markets. And lo and behold, that's what happened in the first quarter. And volatility is going to help the intermediaries in the capital markets because volatility forces portfolio managers to rebalance their risk, and the intermediaries, or the principal providers of the instruments, to rebalance that debt risk.

I also think there's a long-term fundamental shift which we can't lose sight of, which is the growth of global funding from the capital markets versus bank balance sheets. There's an interesting piece by EY last week talking about the UK financial industry, for instance, and one of the things that it highlighted was bank balance sheets continue to be reasonably modest in terms of providing funding for corporations, whereas the capital markets in the UK continues to gain share and grow. And that's something that I think we'll see continue during the course of 2018.

Alvaro Serrano

If we look at a little bit beyond 2018, you've laid out a bridge of how to get to your 9% and 10% RoTE targets in 2019 and 2020. Part of that includes the reallocation of £20bn RWAs into the Investment Bank.

In the CIB business, can you give us a flavour of what part of that revenue is a self-help element and what part is dependent on the markets holding up?

Jes Staley

I think what has been missed to a certain extent is that we can go loan by loan in our Corporate Bank and the relationships, corporate by corporate, and we can calculate what is the return on tangible equity for each extension of credit. And for historical reasons, that really wasn't effectively done in the Corporate Bank.

And so, what we had identified, early on last year, was that there are certain relationships which simply were not covering the cost of capital. And so, we sat down with our clients and we said, either we have to get adjacency businesses in order to have a return on their capital extended to our Corporate clients or we're going to no longer extend that capital. Pretty simple operation and pretty simple to articulate. We began implementing that last year and we've moved a long way towards reallocating that £20bn.

Now, where did it go? I'm sure everyone in this room knows there are a lot of businesses across the CIB which have very profitable returns.

Now, we're one of the largest financiers of fixed income securities in the world. There are businesses there which have very strong double-digit returns well in excess of our cost of capital. So, it doesn't take a whole lot of ingenuity, I can take risk-weighted assets from a business which has a single-digit return on tangible equity and I can apply it to an existing business of Barclays that has a double-digit return on tangible equity, and that's going to improve the performance of the bank. And we are already seeing that.

Alvaro Serrano

I think we learned yesterday that Sherborne has entered your register. There's been a lot of speculation of why that's the case and where they want to put the pressure on management on.

Is it more aggressive? Do you think they might be looking for more aggressive cost-cutting, more ambitious return targets? You mentioned the rates and lower corporate tax were not in your original plans. What are your thoughts on that?

Jes Staley

We really haven't engaged yet with Sherborne. We look forward to them being an important shareholder of Barclays. We engage with our shareholders all the time and talk about our strategy, listening to their points of view.

Obviously, we think that we've gone through a very significant restructuring and redirection of the bank. It essentially terminated last year and we've doubled the dividend now. We've set our return targets for 2019 and 2020. Again, we've laid out how we're going to get from A to B. And we look forward to having a conversation with Sherborne down the road, but we haven't had it yet.

Alvaro Serrano

Obviously, you've announced the 6.5p dividend and you've also said there's potential for share buybacks, medium term. That's a big show of confidence to the market. What is the roadmap you see for those share buybacks to happen? What are the key milestones? And obviously, we've got some legacy conduct issues remaining. We're entering a ring-fence world. What is the milestone we should look out for?

Jes Staley

Well, we do have one significant legacy issue still out there, which is the RMBS issue with the Department of Justice. We have put a lot of our legacy issues behind us. By and large, PPI is behind us. LIBOR is behind us. By and large, Foreign Exchange is behind us. By and large, Commodities and FIRC issues are behind us.

We have one more big issue to deal with, which is the DOJ. And we've said, until that is behind us, we will run our CET1 ratio slightly above our end-state target of 13%. So, let's see how the DoJ discussions unfold.

But what we are committed to, as a management team, as we generate excess levels of capital above what we need to run this bank safe and soundly, we want to return it to our shareholders. And what we are signalling to the market is that we want to, for the first time in over 20 years, consider stock buybacks as we distribute that excess capital to our shareholders.

Participant 1

Could you please talk about market share in FICC, where your strengths are, and what you're doing to strengthen the areas where you have a slightly lower share?

Jes Staley

First of all, I'll address the fourth quarter where almost all the major players had fairly significant reductions in both their Markets businesses and FICC businesses. And what we saw at Barclays, was our reduction, year over year, was less than half of what the five major banks did on average, which I think is a sign that we gained share in the fourth quarter.

I believe you need to be across the market spectrum, whether its foreign exchange, currency, credit, equities, swaps, futures, forwards. We did very well last year in credit, we had some challenges in our equity flow business, but we want to be well positioned across all of the asset classes and I think we have the core architecture to do that.

Participant 2

When you did your strategic review, you must have looked at spinning off parts of Barclays as one part of the strategy. Now, if the new activist pushes for that kind of a strategy, what would your thoughts be?

Jes Staley

Over the last two years, we have closed the bank in 12 countries. And that's a pretty hard thing to do, actually, to close a bank outright. So, from South Korea to Indonesia to Russia, we closed the banks in 12 countries.

We sold 22 businesses. So, from our Index business being sold to Michael Bloomberg to selling our French retail bank to a private equity firm, to selling a bank in Zimbabwe, which, I assure you, is not a very easy thing to do. We've done 22 M&A deals.

We shrunk the risk-weighted assets of the bank, as I said, by £95bn. We executed the largest capital market trade in the history of the continent of Africa, and perhaps even the biggest strategic pivot of this bank, by pulling away from the controlling interest of, arguably, the best bank in Africa.

So, I think we've done a lot there. We like the portfolio of businesses that we have. The balance of a Consumer franchise and a Wholesale franchise, we think is very healthy for the bank. We think the Transatlantic focus is the right one for the bank. So, we like our portfolio, and we think our portfolio can generate the returns that we've set for ourselves in 2019 and 2020.

Participant 3

I have two. One was a follow-up to that answer, you didn't actually say no, Barclays couldn't be broken up. Do you think Barclays could be broken up if people pushed harder for it?

The second question was, why do you personally believe Barclays trades at a discounted tangible book?

Jes Staley

I think it'll be extremely difficult. Of the 80,000-odd employees of the bank, roughly 55,000 work in the Service Company. And you cannot underestimate the scale value of having that Service Company, where we manage processes across the entire reach of the bank.

So, one of the things that Barclays is doing – which is very important, we believe, for cybersecurity and other reasons – is moving the vast majority of our data over the next year and a half to the cloud. Now, we've signed the initial contract with Amazon to do that. Negotiating as the 12th largest bank in the world, with Amazon on how you're going to migrate and maintain your data in their cloud, is a significant, competitive advantage that you can't underestimate.

The diversification benefits for revenue, we think are extremely important. And then, you've got technical issues like the pension issue that you read a lot about in the press recently. So, all strategic opportunities are out there. What is the best economic course for our shareholders? And we obviously believe the best economic course for our shareholders is to manage the bank as we set out as a strategic matter in March 2016, and we would not deviate from that.

On your second question. Because of Non-Core drag, because of legacy conduct issues, we have set aside now £9.5bn for PPI. That's bigger than the market cap or book value equity of Barclays UK. Issues like that have, I think, inhibited our ability to generate returns.

Now that we have a clean operating model and, save the DOJ, have clean air in front of us, we can start to get our returns to the level which I think our shareholders expect. But also, I think very importantly, at 3p per share, we are returning a very small amount of our potential earnings to our shareholders.

And if you look at what's going on with the US banks, for instance, they are returning more than 100% of earnings in stock buybacks and dividends, going back the last couple of years. That is, in fact, what has moved those stocks well north of book value.

If you look at two of our major banks in the UK, HSBC and Lloyds, in one case, they are over 100% and the other case is fairly close to 100% of earnings. So take any EPS assumption you have about Barclays and imagine where we're going to be when we are similar in place to where the US banks are and we're returning close to 100% of our earnings back to shareholders. I think that will speak for itself.

Participant 4

I have a few questions about cybersecurity. Last year, in that very place, you talked about IT investments and the major upgrades you're going through. Now, you're talking again about it. Now, you're talking about moving data on the cloud.

So first of all, as the CEO, how much are you kept awake at night by cyber risk, in terms of hacking of Barclays networks, of failure of a major counterparty, or failure of the clearer?

Secondly, how many hacking attempts does Barclays' network currently have on a daily or weekly or monthly basis?

Jes Staley

I'm not going to give the actual data on the attacks, but obviously it's constant. There is no major institution in the world which is not facing someone trying to break into their network on a pretty consistent basis. We've invested heavily to try to make Barclays one of the safest institutions in the world to protect our clients' data.

So, the investment has been very deep and broad. Under our Head of Technology, Mark Ashton-Rigby, who I think is one of the very best in the industry at doing this, moving to the cloud is one part of that. Upgrading all of our desktop software to levels that can be defended much easier than legacy software. I think we've done quite well. You have not seen us have a major breach and we're fighting the attacks all the time.

The question of whether it keeps us up at night, you bet. And you posed a very interesting question, which is how much do we worry about the risk of a major financial institution being breached and disrupting, in a systemic way, the financial markets. We actually view that as one of the higher risks that we monitor.

If you think about major banks around the world, how many of these are floating around that are essentially a portal to that bank's network? And managing the security of hundreds of thousands of these and iPads and laptops and what not is an extraordinary challenge for a large financial institution.

And, you saw what happened with Maersk. If something like that happened to a very large bank, what would the market's reaction be to that? How would regulators respond to that? So, I think your focus on cybersecurity is very well-placed, and it's something that we think a lot about.

Participant 5

It's a broader question on IT investment. How much of your IT spending is outsourced? What's the trend in that and who are the major providers?

Jes Staley

One of the big strategic moves that we made with the creation of the Service Company was to bring inside more of our technology, development, and running of our technology systems.

If you go back to about nine months ago, if you look at the breakdown between engineers developing technology for Barclays, 50% were internal and 50% were outsourced to contractors. We have the objective, by the end of this year, of moving that 50% internal to 75% by the end of the year, and only 25% using external contractors. We are well on our way to getting to that target. We've actually made quite a bit of progress towards the latter half of last year.

If you believe that a bank, to a certain extent now, is a technology company with a balance sheet, controlling your technology, your investment, the quality of what you're doing, the quality of your cybersecurity is an enormous competitive advantage. And if you outsource it all, you're basically going to be only as good as the outsourced market.

And so, we've taken the view that we have great technologies inside of Barclays. We want to control our own APs. We want to control where we are making our investments. We want to make sure we own the resiliency and soundness of our systems, and how we protect and manage data.

So, we are actually bringing, increasingly, our Technology business back inside the bank. And that's part of the strategy of having the ServCo because you put in there across the entire range of the bank, from the Consumer business in the UK, to the Wholesale business in Asia and the US. You get the benefit of that scale. You get the benefit of the transmission of knowledge across the entire banking platform. You get the power of the 12th largest bank against developing a technology platform that you control. And I think that's a big part of our business strategy that we set out two years ago.

Participant 6

Could you please elaborate a little bit more on the interaction between the ring-fencing entity in the UK and your Wholesale operation regarding your adamancy to return 100% of the excess capital. But the split between the Wholesale operations and the UK ring-fencing entity could also be seen by the market as Barclays needing a higher level of capital to run these operations, especially because what is outside of the ring-fencing entity is Wholesale and US Credit Cards.

Jes Staley

What's in Barclays International is not just Wholesale and US Cards. It's the entire Corporate Bank of Barclays in the UK and across Europe. It's the entire Private Banking operations in the UK, in Geneva, in the Channel Islands. It's the entire Credit Card operation in Germany. It's the entire merchant acquirer business. We talk about the power of payments globally, that payment engine sits in Barclays International. So, you overly simplified the bank with your description.

But then, I go back again to the Service Company, where you have Barclays UK and Barclays International, and you have a Service Company, which is a non-regulated bank, with 55,000 of our employees managing what we call transaction cycles. There are 29 of them. That cuts across the entire business. So, as you manage payments of the transaction cycle, whether it's payments in a branch in Manchester or payments by Boeing in the US, it's done through one transaction cycle where we get the benefits of scale and the capabilities of this bank.

The thing that you need to very much focus on is read the credit agency reports on Barclays and Barclays International and Barclays UK. The banks are equally capitalised. One is larger than the other, actually. They have similar funding profiles. They have similar liquidity profiles.

I don't personally view one as being more risky than the other. In fact, I think they both complement the other. And ultimately, they meet together at the Group level. And it's the diversification of that business model which enhances the ultimate profitability and security of the Group numbers.

Participant 7

What do you think about the possible effects on top-line from PSD2?

Jes Staley

I think Open Banking is going to be fascinating. We actually view it as a great opportunity for the bank. Managing data for the benefit of our clients is going to be one of the evolutions, if not revolutions, in banking. Because in truth, banks have an access to economic data which is really unmatched in industry. We can tell you what is going on in the economy of a street corner, in a neighbourhood, in a town or city, in the UK like no other industry out there.

And we want to manage that data for the benefit of our customers. This is the first time we did this, actually. When there was the Barcelona terrorist attack, we knew within seconds how many, or what customers of Barclays used their debit card or credit card in Barcelona within six hours of that terrorist attack.

And we have the cell phone numbers of our clients. We actually sent a text message to all of them saying 'We understand you may be in Barcelona. This obviously terrible event has happened. If there's anything that the bank can do to help, please reach out to us'. And the response from our clients was extraordinary, to the extent we're actually doing this.

There's a hotel in London that wanted to refurbish their restaurant. To try this, we said, 'How about if we tell you what type of restaurant you should put in your hotel? We know where your customers come from. we know if they're generally British or if they're foreigner travellers and from what countries they come from? We know the restaurants in your neighbourhood – what restaurants work, what don't, and why not.'

And literally, we have the information that would give them an informed judgment, 'Do I put a Japanese restaurant or an Italian?' And you take that exercise, and expand it across the entire platform of Barclays, and it's an extraordinary thing, I think, what's going to happen on managing data that banks have at their fingertips, that will be expanded on the back of PSD2, for the benefit of our customers and clients.

The only thing I worry about on PSD2, and I know the regulators are also focussed on it, is we've got to be very focussed on ensuring we're not increasing the opportunity for criminals to defraud our customers. That's the risk of PSD2, but I think the FCA and PRA are very much on top of that.

Alvaro Serrano

Nobody's asked about asset quality, which I guess is a good thing. But we published, at Morgan Stanley yesterday, a survey in the UK just to gauge the consumer sentiment around Brexit. And one of the things that showed is that there's a ten-percentage-point pickup in early late payments. People that struggle to pay sometimes skip a payment. So not delinquencies, but early delays.

Obviously, you have a privileged position to gauge asset quality in the UK. Do you have any comments on that? Are you seeing any early signs of financial stress in the UK consumer?

Jes Staley

The short answer is no. But we are obviously mindful of the challenges that Brexit may pose for the UK economy. What we are seeing is there is an increase in consumer credit. We are seeing increases in consumer consumption and spend. But what is worrying to us is we're seeing a decrease in consumer confidence.

So generally, you're optimistic if you've got economic growth, which we've got. You're optimistic if the consumer is spending more money, which is happening. I think the debt per capita is still way below where it was in 2008, but it is growing.

But the concerning side is how much of that is being driven by inflation, as opposed to consumer confidence? And when you see the consumer confidence begin to wane, which we do in our own proprietary surveys, then I do think you want to take a more measured response in terms of how you look at particularly your unsecured consumer credit portfolio.

So, we are mindful of the environment that we are in. We think our underwriting standards are very conservative. They have been across our secured portfolio and mortgages and our unsecured portfolio. And so, we are being prudent. But we also want to stay open for business in the United Kingdom. That's our obligation as a major bank in this country.

On the business side, we are not seeing any signs of strain and stress. So on the lending portfolio across small businesses and corporates, the impairment numbers continue to be quite reasonable.

Participant 8

You’ve talked a lot about the benefits that you've invested in technology. You've talked a lot about thinking about how big data and access gives big banks an advantage. In the last three to five years, bigger banks have also improved their balance sheets.

If I'm looking forward three to five years, do you think economies of scale are going to start being more evident in the larger banking industry?

And, some of the smaller players talk about cost: income ratios of about 30% to 40%. If I'm thinking about the larger banks, do you think, in the next three to five as we get those kind of levels – I guess, you do need a bit of revenue help - but this is more about scale and economies and access to big data. That's my kind of angle

Jes Staley

I've been in the banking industry for about 40 years. And one of the constants in those 40 years is the undeniable view that scale is an advantage in the financial services industry. So, we look at our 24 million consumers in the UK as a huge scale advantage. We look at the reach of our CIB, globally, as a huge scale advantage. And I think all the players – if you ask James Gorman, does he view scale as an advantage for Morgan Stanley, I think he'd probably say yes as well.

But one of the interesting new challenges now is in the FinTech space. We spent a lot of time in Palo Alto in Silicon Valley and in Cambridge and in Tel Aviv, looking at what's going on in FinTech. And I do think there's a little of an interesting dynamic where you've got FinTech companies that have interesting innovations, looking for a scale distribution platform.

Then you've got the large banks, which have a scale distribution platform, looking for innovation. And it's going to be that both the competition and the interplay between those two polarities which is going to be a fascinating dynamic for the banking industry over the next 10 to 20 years.

So, what we know we have is scale of skilled distribution. What we need to be very attuned to is do we have the investment in technology that we control that's going to allow us to be in the forefront of innovation? And will we partner with companies in technology to use our scale platform for our business?

One simple way, the co-brand Uber card, there are 60 million consumers in the United States that have an Uber app on their cell phone. And in that app is embedded a credit card. Now, we have the ability to go after 60 million consumers by partnering with Uber. And I think that is the field that we're going to be playing with over the next number of years, and it's one of the interesting dynamics in the banking industry.

Important Notice

The information, statements and opinions contained in this presentation do not constitute a public offer under any applicable legislation, an offer to sell or solicitation of any offer to buy any securities or financial instruments, or any advice or recommendation with respect to such securities or other financial instruments.

Forward-looking Statements

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and Section 27A of the US Securities Act of 1933, as amended, with respect to the Group. Barclays cautions readers that no forward-looking statement is a guarantee of future performance and that actual results or other financial condition or performance measures could differ materially from those contained in the forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as ‘may’, ‘will’, ‘seek’, ‘continue’, ‘aim’, ‘anticipate’, ‘target’, ‘projected’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’, ‘achieve’ or other words of similar meaning. Examples of forward-looking statements include, among others, statements or guidance regarding or relating to the Group’s future financial position, income growth, assets, impairment charges, provisions, business strategy, structural reform, capital, leverage and other regulatory ratios, payment of dividends (including dividend payout ratios and expected payment strategies), projected levels of growth in the banking and financial markets, projected costs or savings, any commitments and targets and the impact of any regulatory deconsolidation resulting from the sell down of the Group’s interest in Barclays Africa Group Limited, estimates of capital expenditures and plans and objectives for future operations, projected employee numbers, IFRS 9 impacts and other statements that are not historical fact. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. These may be affected by changes in legislation, the development of standards and interpretations under International Financial Reporting Standards including the implementation of IFRS 9, evolving practices with regard to the interpretation and application of accounting and regulatory standards, the outcome of current and future legal proceedings and regulatory investigations, future levels of conduct provisions, the policies and actions of governmental and regulatory authorities, geopolitical risks and the impact of competition. In addition, factors including (but not limited to) the following may have an effect: capital, leverage and other regulatory rules (including with regard to the future structure of the Group) applicable to past, current and future periods; UK, US, Africa, Eurozone and global macroeconomic and business conditions; the effects of continued volatility in credit markets; market related risks such as changes in interest rates and foreign exchange rates; effects of changes in valuation of credit market exposures; changes in valuation of issued securities; volatility in capital markets; changes in credit ratings of any entities within the Group or any securities issued by such entities; the potential for one or more countries exiting the Eurozone; the implications of the exercise by the United Kingdom of Article 50 of the Treaty of Lisbon and the disruption that may result in the UK and globally from the withdrawal of the United Kingdom from the European Union and the success of future acquisitions, disposals and other strategic transactions. A number of these influences and factors are beyond the Group’s control. As a result, the Group’s actual future results, dividend payments, and capital and leverage ratios may differ materially from the plans, goals, expectations and guidance set forth in the Group’s forward-looking statements. Additional risks and factors which may impact the Group’s future financial condition and performance are identified in our filings with the SEC (including, without limitation, our annual report on form 20-F for the fiscal year ended 31 December 2017), which will be available on the SEC’s website at www.sec.gov.

Subject to our obligations under the applicable laws and regulations of the United Kingdom and the United States in relation to disclosure and ongoing information, we undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.