Barclays PLC H1/Q2 2016 Results

Analyst and Investor Conference Call Speech

Jes Staley, Barclays Group Chief Executive Officer

Tushar Morzaria, Barclays Group Finance Director

Slide 2: Jes Staley, Barclays Group Chief Executive Officer

Good morning everyone, and thank you for joining this 2016 second quarter earnings call.

Before I hand over to Tushar to take you through the numbers in depth, I want to provide you with some thoughts on what was a really good quarter for us, and one which amply demonstrates I think the high quality business at the core of Barclays.

Slide 3: Transatlantic Consumer, Corporate & Investment Bank

We are very encouraged by the progress made against the strategy we laid out on March 1st.

We have established Barclays as a transatlantic consumer, corporate & investment bank, with global reach.

Our Core businesses – Barclays UK and Barclays Corporate & International – are performing very well, producing a combined underlying Return on Tangible Equity in the second quarter of 11.0%.

This already impressive profitability of these businesses today – businesses which represent the future of Barclays – emphasises again why our strategy is focused on
delivering to our shareholders the earnings power of those Core franchises, free from the drag of Non-Core – and to do this as quickly as possible.

The elimination of Non-Core continued apace in the second quarter, with a further reduction of £4 billion in risk weighted assets.

The second half will include even more progress in Non-Core run down as we anticipate closing deals we have announced including: the sale of our cards business in Iberia; the sale of our Wealth business in Asia; the sale of our Indices business; and the sale of our Italian retail network. These are all on pace.

These deals collectively will deliver a further £3bn of RWA reduction and 15-20 basis points of improvement in the CET1 ratio in the second half of this year.

They will additionally mean annualised costs reducing by about £250 million, and a headcount roll off of around 1,500 employees, as colleagues transfer across as part of the sales.

We continue to make progress on other divestment opportunities, including in the exclusive negotiations with AnaCap concerning the proposed sale of our French retail business, and we anticipate announcing further transactions in the second half.

To be clear, our assessment is that the Brexit vote in the UK will have no effect on our ability to run down Non-Core at an accelerated pace, and we therefore remain confident in reiterating our goal of closing Non-Core in 2017.

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

In addition, cost remains firmly under control and we are on track to meet our target of £12.8 billion for Core expenses for 2016, albeit on a constant currency
basis. As part of our focus on cost, we have now taken headcount down by over 12,000 people since December 1st 2015.

Finally, despite the market disruption immediately after the Brexit vote, we have maintained a strong Liquidity Coverage Ratio of 124%, and we have grown our CET1 ratio further to 11.6%.

Taking all of this together, the picture is one of very encouraging progress against our strategy.

Our plan for Barclays continues to be the right one, and we see no reason to adjust it, or the pace of delivery, in light of the vote by the UK to exit the European Union.

So our priorities remain the same:

First, we need to carry on building the Core businesses.

Both are already demonstrably high quality franchises, with Barclays UK producing a strong underlying 18.4% return on tangible equity in the second quarter, and Barclays Corporate & International posting a strong 11.9%. Returns like these underscore the strength of the Core business in Barclays.

Second, we need to close Non-Core as fast as possible, as we’ve said before, and we remain firmly committed to doing just that in 2017.

As a signal of our confidence to achieve that goal, we are today providing additional guidance on costs in Non-Core. That guidance is that we expect costs in Non-Core for 2017 to be in a range between £400-£500 million, excluding notable items, which is significantly lower than the level expected in 2016.

Third, we will stay focused on cost reduction, including meeting our target of £12.8 billion for Core expenses in 2016.

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 57%, so you can see the potential for us to get to that longer term target as Group performance converges with Core.

Fourth, we need to carry on with the sell-down of Africa and the planning for operational separation. Given the success of our initial transaction, and the strong level of interest we are getting with respect to the asset, we have increased certainty in our ability to achieve deconsolidation of Barclays Africa.

And finally, our strong 11.6% CET1 print today shows our capacity to generate capital from our Core businesses.

These priorities remain the means by which we will deliver, in a reasonable timeframe, a Barclays which can generate strong, sustainable returns for our investors at the Group level.

While remaining committed to our strategy, as I’ve made clear, we are not ignoring the ramifications of the Brexit vote, so let me turn to that now.

**Slide 4: Resilience from prudent risk management and diversification**

I believe Barclays is particularly well placed to weather whatever the consequences of the Brexit decision are, because of two inherent strengths in our business and strategic approach – specifically, diversification which we’ve talked a lot about and an historically prudent approach to risk.

For me, as I’ve said before, the best place to be in a time of economic uncertainty is in a large diversified financial institution. And that is precisely what Barclays is today.

We have a diverse set of customers and clients, with strong franchises in both consumer and wholesale banking.

We have a diverse product set: from institutional advisory to international cards and payments; from Equity Capital Markets to corporate lending; from macro to
mortgages – we are extremely well balanced as a firm across the consumer and client continuums.

And we have a diverse geographic model. In the first half of this year for example - and this excludes Africa - we generated nearly half of our income from outside the UK. Almost a third came from the US which, of course, with the strength of the dollar today, is even more valuable than it was before to the Group.

Diversification is deliberately built into our organisational DNA, and it is a huge strength for Barclays.

Coupled with that strength is a conservative risk profile which we have maintained for many years actually, evidenced in our high credit quality and lower volatility impairments across our consumer and wholesale businesses, particularly compared to other UK banks.

To illustrate the point you need only to look at our lending.

Our UK mortgage book has an average loan to value ratio of 47% - this is well below the market average for the UK as you know - and average loan to value on new mortgage flow is just 63%.

Only 2% of our total mortgage book is higher than an 85% loan to value ratio, and only 9% is in the buy-to-let segment.

77% of our lending to SME clients is secured, and our exposure to UK commercial real estate is very limited, and with a very conservative loan to value.

Our Barclaycard portfolio in the UK is seasoned and diversified, and we have the systems in place to monitor its performance closely.

Our Markets business in the IB – Credit, Equity, and Macro - today utilises just 15% of our bank’s total risk weighted assets, as our investment banking business has evolved to become much more of an agency model - acting as an intermediary
between providers of capital and those seeking it, as opposed to a principal business.

In short, we don’t need to make major adjustments to our risk appetite because we are already prudently placed in the market, and have been for some time.

That prudence, bolstered by diversification, makes Barclays not only very resilient to any economic shifts caused by the Brexit vote, but also well placed to support our customers and our clients.

**Slide 5: Our strategy remains unchanged and is on track**

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.

In times like this banks like Barclays can and should be a stabilising influence in the economy. As an industry we could not play this role in 2008 and 2009 because we were in front of the crisis. But today we are strong enough to play our part, in support of people like the Bank of England and the UK Government, in maintaining consumer and market confidence in the UK financial system.

We want to carry on lending to customers and looking after their savings; we want to help businesses to invest and to grow; we want to help clients to access the capital markets and trade – and we will continue to do so.

Barclays is very much open for business.

For example, in the last week alone we helped around 2,000 people start new businesses across the UK – and our already high levels of SME lending are holding up quite well.

We’ve launched a £100 million fund for lending to farmers recently which has been very positively received.
And we have completed nearly £2 billion of residential mortgages since the Brexit vote, actually 8% up on the same period last year.

We led the first issuance for corporate clients into the European debt capital markets following the referendum, getting Sterling bonds away for BAT and Brown Forman totalling some £800 million. We also led the first bond issue for a European corporate issuer in helping the German Rail company, Deutsche Bahn, to raise €750 million.

Barclays has also been involved in several major M&A deals since June 23rd, including Melrose’s recent $2.8 billion acquisition of the US company Nortek. And we were particularly pleased that last week we were the global coordinator on the privatisation of the Italian Air Traffic Controller company, ENAV, in what was the first major post-Brexit IPO to price following the referendum, demonstrating once again the value Barclays can and does bring to European issuers.

While resolutely open for business, we are detecting some understandable caution in consumer and business confidence following the referendum, and signs that some decisions are potentially being put on pause or pushed out while people see how events play out. However in my view it is too early to say whether this will be an enduring condition.

Importantly, what we are not at this stage seeing are any signs of credit stress, which would be a typical harbinger of an economic slowdown.

We will know more as the weeks and months go by, 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 pass to Tushar, 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.

To be clear, we believe the development of a single market for financial services in Europe, with the full participation of UK banks, remains the best option for the UK economy and the best option for the European Union economy.

Therefore 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 are a range of possible outcomes of the negotiations in the coming months and years, and we are looking closely at our options as to what we would do in various scenarios. We are confident that we have multiple choices for how we might continue to serve our customers and clients regardless of the outcome. Tushar will touch on some of these in his remarks.

But I have to say that compared to the complexity of standing up our US Intermediate Holding Company, as we did on July 1st, let alone establishing a ring-fenced bank in the UK from scratch, any of the options we might need to pursue are by comparison straightforward, and significantly less costly.

We would prefer not to have to do so, but if we are required to adapt our operations to maintain our access to Europe then we know from recent experience and practice that we are extremely good at doing so, and have high confidence in our ability to execute.

Finally, we do not currently see a need in our options to shift jobs or significant operations elsewhere. If we do require a build-up of capability in another EU jurisdiction as part of our plans, then we can do so, and we will.
In summary then:

Our confidence in Barclays’ capacity to handle any change in the UK economy as a result of Brexit is high. The diversification in our business, coupled with a conservative risk profile, makes us extremely resilient, and we won’t lose that strength.

Today’s results show a strategy that is working very well, with a really pleasing Q2 performance in Core, and the acceleration I talked about in March which is taking effect.

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 let me hand over to Tushar.

Slide 6: Tushar Morzaria, Barclays Group Finance Director

Thanks, Jes.

You will have seen our H1 results, which we released earlier this morning.

As at Q1, we led with the statutory view of our financial results, since we are close to the end of our restructuring.

I’m now going to focus more on the Q2 performance, and we have again highlighted the key notable items in the period.

When I run through the performance of our businesses, I will talk on an underlying basis, excluding these items.

As you know, Barclays Africa is now presented as a discontinued operation – and we have completed the initial stage of our planned selldown in Q2.
Slide 7: Financial highlights – Q216

In this quarter our Core business again delivered a double-digit RoTE, as Jes mentioned, 11.0% on an underlying basis, Barclays UK was at 18.4%, and Barclays Corporate & International at 11.9%.

Our CET1 ratio strengthened during the quarter from 11.3 to 11.6%, despite the preference share redemption and the conduct charge that we took.

We continued to make good progress in the Non-Core rundown, and remain on track to close the Non-Core by the end of 2017, with around £20 billion of RWAs and a significantly lower drag on Group returns, and I’ll return to the flightpath for both RWAs and reduced losses in Non-Core later, where, as you heard from Jes, we are today giving further guidance on a lower cost base for 2017.

We also remain on track to hit our Core cost target of £12.8 billion for this year, which was based on a US dollar rate of $1.42.

We’ve given a sensitivity of what this would be if the pound were to be at $1.30 through H2 – but as I’ve said many times we benefit overall from a strong dollar, as we have significant US dollar profits.

TNAV increased in the quarter by 3 pence to 289 pence.

Slide 8: Statutory Group financials – Q216

Before I go into underlying figures, this slide summarises the statutory results for the quarter.

These include notable items a net positive of £507 million pre-tax, compared to net losses of £72 million in Q2 last year.

In addition to the own credit move, there was a gain on the Visa Europe disposal of £615 million and a further UK customer redress provision of £400 million.
This additional provision reflects an updated estimate of PPI costs primarily relating to ongoing remediation programmes.

Other one-off items I would highlight here are: an impairment of £372 million relating to the French businesses held for sale, and a charge of £182 million on restructuring part of the ESHLA portfolio.

These are in Non-Core and we aren’t treating them as notable items, as the Non-Core result by its nature is dominated by one-offs as we progress towards closure.

Overall Group statutory profits before tax were 18% lower at £1.3 billion, reflecting the losses in Non-Core as we accelerated the rundown.

This resulted in attributable profit of £677 million, and a Group statutory RoTE of 5.8%.

Diversification is a key feature of Barclays, as Jes mentioned, and this slide illustrates the spread of income across Barclays UK, CIB, and Consumer, Cards & Payments.

Turning now to the Core results, which I look at on an underlying basis.

**Slide 9: Core: Underlying Return on Tangible Equity of 11.0%**

Underlying profit before tax in our Core businesses fell to £1.9 billion, but we generated a Core RoTE of 11.0% on an average tangible equity base that was over £4 billion higher.

Core income decreased 1%, with strong growth from Consumer, Cards & Payments largely offsetting some decline across the Corporate & Investment Bank and Barclays UK.

Underlying impairment was broadly in line with last year, but the charge rose by £89 million largely due to model updates and business growth.
The total loan loss rate increased to 45 bps. I’ll say some more on our conservative risk positioning shortly.

Costs were flat, as savings were broadly offset by currency headwinds.

We remain on track to hit our Core cost target for this year of £12.8 billion, subject to FX.

**Slide 10: Generating a consistently strong Core RoTE on an increasing tangible equity base**

Before moving onto the detail of the Core businesses, I want to highlight our track record of maintaining double digit returns, excluding the bank levy, virtually every quarter over the last couple of years, while increasing the equity allocated to the Core from just under £33 billion to over £40 billion, and remember that we are already allocating the equity from our Barclays Africa stake to the Core, but not the profits.

Turning now to Barclays UK.

**Slide 11: Barclays UK - Return on Tangible Equity of 18.4%**

The underlying RoTE for Barclays UK for the quarter was 18.4%.

Underlying income was broadly stable year on year, despite the impact of the European interchange fee regulations coming into full effect.

Margins remained solid at 356 basis points, despite competitive pressures largely in mortgages, offset by some liability re-pricing – slightly down on Q1, but up year on year.

We’ve been asked a lot about the effect of expected interest rate cuts on our net interest margin.
If I look at the general expectation of a 25 bps rate cut in August, we would expect to broadly offset that through further liability re-pricing with a slight time-lag, so Barclays UK NIM for the full year at around the Q2 level looks in the right ballpark.

If rates go below 25 bps, it would likely put modest downward pressure on NIM.

We continue to maintain the structural hedges, with net hedge contributions broadly flat year on year across the Group and much of this feeds into our NIM calculations.

Headline impairment increased by £54 million but this increase is accounted for by a debt sale in Q2 last year and an update to impairment models in Q2 this year, both in Barclaycard.

We may have some effect from further model updates in the latter part of the year, but these changes are not reflective of underlying delinquency trends in cards which remain resilient.

Costs reduced by 3%, delivering positive jaws, and resulting in a cost income ratio of 53%, which we plan to take to below 50%.

Our strategic focus on innovation and automation, and our market leading position in digital banking, where we have seen a 50% increase in digital payments and transfers over the last couple of years, create further opportunities for structural cost reductions in Barclays UK.

For example, we have already reduced branch FTEs by 23% from 2013 to 2015, and counter transactions have reduced by 45% since 2014.

Customer behaviours are changing, and we are leading the way in adapting to these changes. We now interact with customers more than 30,000 times per week via either encrypted video calls - we are the first bank in the UK to offer this service - or via webchat, both online and digitally through our Mobile Banking App.
Slide 12: Barclays UK: Digital is Barclays' biggest branch

It was another successful quarter for our digital branch, as digital unsecured lending continued to expand, with a 38% annualised growth year on year as we originated £1.1 billion of these loans in H1, and with their low 20s cost to income ratio we are seeing immediate benefits to our bottom line, and importantly this digital channel is franchise lending – with all of these loans being to existing customers.

Turning now to Barclays Corporate & International.

Slide 13: Barclays Corporate & International: ROTE of 11.9%

BC&I has delivered a resilient performance this quarter, with an RoTE of 11.9%, in an environment for investment banks that has remained challenging in a number of areas.

This is beginning to demonstrate clearly the benefits of our diversification across wholesale banking and consumer lending products and across the geographic markets in which we operate, with a significant percentage of income denominated in US dollars.

Turning now to the Corporate & Investment Bank.

Slide 14: Corporate & Investment Bank: RoTE of 9.5%

The CIB delivered an RoTE of 9.5% for the quarter, down on last year’s strong Q2, but up on the 7.3% we reported for Q1.

Income performance was solid.

Our flow-focused Credit business had its second strongest quarter in recent times with revenues up by 23% year on year.
Macro was up 5% year on year, driven by rates and currency products, while Equities was down 31% on a strong Q2 last year to £406 million.

Some of this reduction came from the deliberate re-positioning and simplification of parts of the business, following Jes’s strategic review, which resulted in lower income but minimal impact on returns.

The US Equities business was up, but this was more than offset by declines in EMEA and APAC.

Banking fees were up 7%, with the highest quarterly DCM income in the last five years and strong Advisory income, partially offset by weak primary equity revenues.

We do track our fee share – and we have maintained our position as the top European investment bank both globally and in the US, also ranking no 3 in the UK. Across our combined home markets – the US and UK – our fee share in Q2 increased 60 bps over Q1.

We advised on three of the top five M&A deals that closed in Q2, including the Air Liquide acquisition of Airgas for $13 billion, a highly complex cross-border deal.

On the Corporate side, lending income was down by 19%, due primarily to lower contribution from credit hedges on our lending in the investment bank.

Lastly, Transactional Banking fell by 6%, due to some margin compression partly offset by increases in payments volumes and income from higher deposit balances.

So overall income performance for the CIB was resilient, with just a 6% decline, but we had negative jaws in the quarter, which we will be addressing.

Costs rose by 4%, primarily due to structural reform costs and currency headwinds which more than offset cost savings.
As I’ve said before, we are intently focused on improving CIB returns and looking at all levers to reduce the cost base further including compensation, as well as more efficient use of our balance sheet with clients.

Q2 impairment was stable year on year but down on Q1 which had higher impairment in relation to oil and gas clients.

We did experience a 3% increase in CIB RWAs overall, reflecting the 9% appreciation in the US dollar over the quarter.

Before I move on to Consumer, Cards & Payments, a couple of words on passporting.

There has been a lot of discussion since the Brexit vote as to what solution we will adopt in order to continue EU activities.

We don’t want to pre-judge the outcome of the political negotiations which will take place over the coming months, possibly years but if a solution isn’t found which embodies passporting of the sort currently in operation then alternatives are available for maintaining EU market access.

We are of course considering the attractions and limitations of each of these – and the solution is likely to be a combination of them and our starting point is one where a substantial majority of our CIB income is not reliant on passporting.

The principal alternatives we see are:

- Building out an existing EU subsidiary or setting up a new one, which could then passport business onwards into other EU countries. For example, we do have an Irish subsidiary;

- Licensing existing branches in EU jurisdictions for particular operations, on a country by country basis, for example in France or Germany;
Lastly, reliance on Third Country access arrangements such as the MiFID2 rules, which are due to be introduced in 2018, and could cover much of the relevant parts of our EU operations.

Our overriding view is that whatever solution we end up choosing we are confident will be able to deliver on our returns objectives for both the CIB and the Group.

**Slide 15: Consumer, Cards & Payments: RoTE of 26.3%**

Consumer, Cards & Payments had another outstanding quarter.

On an underlying basis profits increased 41% with strong positive jaws, as income increased by 15% largely reflecting ongoing growth in our US and German cards portfolios, and the benefits of a stronger US Dollar and Euro.

In payments, merchant acquiring also continued to perform well with a 5% increase in payments processed in Q2 to £56bn.

While I wouldn’t encourage you to model 15% income growth every quarter, the growth prospects of the business, across cards and payments, are encouraging.

In cards, we continued to grow the recently acquired JetBlue portfolio.

We have also recently reached a new co-brand agreement with American Airlines, securing a strong position alongside Citi. This is an evolution of our historic position with US Air and follows on from their merger with American a couple of years ago and we also remain excited about the opportunities to continue to grow our payments business, and build on our innovative digital offerings to corporates.

Costs were down by 3%, despite currency headwinds and continuing business growth.

Impairment increased by £38 million, also reflecting business growth and currency movements.
This delivered an RoTE of 26.3% in the quarter.

Turning now to Non-Core where we have made further progress on the rundown, despite market and currency headwinds – and we are firming up our 2017 cost guidance, with a formal target.

**Slide 16: Non-Core: Continued good rundown momentum**

Starting first with the P&L, the loss before tax approached £1.1 billion. This included the £372 million impairment relating to the French businesses, and the £182 million one-off charge resulting from the restructuring of around half of the ESHLA portfolio, £8bn of so-called LOBO loans, which tend to be longer dated.

As I mentioned earlier, we aren’t treating these as notable items.

The restructured loans are now treated as amortised cost and we get a net capital benefit of approximately £250 million. This also significantly reduces our Level 3 assets.

Following the restructuring of the LOBO loans, we would expect significantly lower P&L volatility from the remaining fair valued ESHLA portfolio going forward.

I’ll go into some further detail on the evolution of income and costs in a moment, but in summary, for the full year, I am broadly comfortable with the current market consensus for a loss before tax of around £2.6 billion excluding notable items – and we expect a significantly smaller loss in 2017, as we target closure of the Non-Core with around £20 billion of RWAs by the end of that year.

Looking now in more detail at the RWA rundown.

**Slide 17: Priority is to close Non-Core in 2017**

We reduced RWAs by £4 billion in the quarter to £47 billion.
On top of this, we have a good pipeline of business disposals where we have announced deals, or in the case of France exclusive discussions with a potential purchaser.

The expected proforma impact of completing these Business sales would be around £3 billion of further RWA reduction and 15-20 bps of capital ratio accretion.

We continue to make progress in reducing Non-Core derivatives.

A lot of these are vanilla derivatives – and the book is well hedged – so we aren’t forced sellers – and we aren’t concerned about our ability deliver the planned rundown in the aftermath of the Brexit vote.

As we have said before, the rundown profile will not always be linear, but we are very comfortable with our progress, and continue to expect to close Non-Core in 2017, reaffirming our RWA target of around £20 billion.

Turning now to costs.

**Slide 18: New Non-Core cost guidance for 2017**

We remain focused on significantly reducing the cost run rate from current levels. The majority of this reduction will come through elimination of a large part of the £600 million we transferred in earlier this year – 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 – and we incurred £263 million of this in the first half of the year.

So 2017 costs will be well below the 2016 level – the amount depends on timing of completion of business disposals, but to give you a range we are now publishing formal guidance of £400-500 million for 2017, excluding notable items.

Now a few comments on income.
Slide 19: Non-Core income guidance

We’ve shown the income line in two parts, separating out the ESHLA fair value moves which have been difficult to guide to.

The figure for H1 excluding these fair value moves was £162 million negative. Looking forward, the H1 business income of £377 million will erode as disposals complete. We also expect more exit costs on derivatives as we accelerate the rundown in H2, and so we are sticking with our guidance of £800-900 million for the full year, excluding ESHLA fair value moves.

Although we aren’t guiding to an income range for 2017, there should be significantly less negative income, comprising fewer exit costs plus the net funding cost of the residual assets held.

Turning to the ESHLA fair value, we had a £424 million fair value loss on the total ESHLA portfolio in H1, but with just £50 million in Q2, and the fair value volatility should reduce significantly following the LOBO restructuring.

The other income element in the P&L is Other Net Income, where the profit or loss on business disposals is usually accounted for.

As I mentioned, the H1 expense related to impairment of the French businesses held for sale. I would also remind you of the pipeline of business disposals on the previous slide. We would expect the sale of the Index business to close soon – this should generate a profit close to £500 million.

We also hope to close other deals, notably Wealth Asia and Southern European cards, which we would expect to generate some gains on completion – so the net for the year should be a positive.

As I said earlier, I am broadly comfortable with current Non-Core consensus for 2016.
Now a few thoughts on impairment and our risk positioning.

**Slide 20: Prudent and well managed risk appetite**

As Jes mentioned earlier, the volatility of our loan loss rate has been significantly lower than our major UK peers over a prolonged period.

We have maintained a prudent risk appetite since well before the 2008 financial crisis. This served us well through the crisis, notably through our relatively limited exposure to UK commercial real estate and low LTVs on mortgage lending.

We have avoided the temptation to dial up risk appetite in pursuit of top line growth. This positions us well to deal with the macro-economic uncertainties we are facing following the Brexit vote.

We don’t know what the effect on the UK economy will be. We don’t however see another full-blown financial crisis developing and we do believe that the quality of our assets positions us well to deal with economic stresses, if they do develop.

The charts on the slide remind you that we had the lowest stress drawdown among our UK listed peers, post-management actions, in both the 2014 and 2015 Bank of England stress tests.

**Slide 21: Asset quality trends remain favourable**

On this slide we have illustrated how our asset quality has resulted in declining impairment charges and credit risk loans over the last few years while coverage ratios have increased.

I’ve mentioned earlier that the increases in the impairment charge in Q2 have been the result of model updates or business growth – and you can see in the bottom chart that delinquency trends remain stable.
So while our impairment is still at low levels, and we would expect some increases to feed through over time, our credit metrics are stable, and we aren’t changing our already conservative risk appetite.

In the appendix, you can find further details on our exposures to mortgages, Commercial Real Estate and credit cards.

**Slide 22: Continued focus on cost discipline and efficiency**

The Core has delivered a good cost income ratio in this quarter of 57%, and we remain on track to hit our Core cost target of £12.8 billion for 2016, subject to FX.

We’ve shown an FX sensitivity on this slide. If the US Dollar were to be at 1.30 through H2, we estimate that the reported equivalent of the £12.8 would be £13.0 billion. However - as I said earlier - a strong dollar would benefit us financially.

This year’s cost target is clearly not the end of the journey – and with a more subdued economic environment now likely, we will be examining all levers to improve cost efficiency, particularly in the CIB, as we progress towards our cost:income target of below 60% for the Group.

Turning now to liquidity and funding, before I finish on capital.

**Slide 23: Maintaining a robust liquidity position and well diversified funding profile**

We maintained a robust liquidity position leading into and after the Brexit vote with an LCR of 124% at quarter-end.

We’ve also made further progress on our HoldCo issuance programme, and we continue to work on optimising our total funding costs.

At current spread levels, we don’t expect our future funding needs to translate into materially higher costs of funding for the Group.
Now turning to our capital position, where we remain very comfortable with our current and projected capital and leverage ratios.

**Slide 24: Strong CET1 ratio progression**

Our CET1 ratio at 30 June was 11.6%, on an RWA base of £366 billion – an increase of 250 bps since the end of 2013.

We improved the ratio in Q2 from 11.3 to 11.6, despite taking a conduct charge, reflecting the capital generative capabilities of our businesses.

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

**Slide 25: 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. As you know, we plan to hold 100 to 150 basis points above minimum regulatory requirements.

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.
These segments add up to 12.2 to 12.7%, so a 2019 requirement of around 12.5% currently looks like the right ballpark.

Of course, we have shown the stack without a counter-cyclical buffer given recent comments by the Bank of England, but will keep a close eye on this.

As I have said many times, the quarter by quarter path of the ratio to our end state will not be linear.

In terms of the RWA flightpath, we aren’t giving precise guidance, but our plans to achieve regulatory de-consolidation of Barclays Africa, further run-down of Non-Core, and some modest growth in selected Core businesses would imply RWAs in the low £300 billions, before any potential Basel recalibration.

The leverage ratio reduced by 10 basis points in the quarter to 4.2%, driven by an increase in leverage exposure, and remains comfortably above our minimums.

**Slide 26: Conclusion**

So, to re-cap.

We are making encouraging progress in delivering the plan we announced on the 1st March – with a resilient Core delivering a double digit RoTE.

The Non-Core rundown is on track to close the unit by the end of 2017 – and we’ve provided new guidance on the cost take out.

We have seen significant income growth in certain areas of the Core, notably international cards, but recognising the income outlook may remain subdued, we remain intently focused on costs and achieving a structurally lower cost base, and are on track to hit our Core cost target for 2016, as we target a Group cost:income ratio of below 60% over time.
We have continued to apply our conservative risk appetite and believe the resulting high asset quality puts us in a good position to deal with any macro-economic headwinds that may develop in the UK.

We are confident capital will grow from our current level of 11.6% towards our end state requirement, and this provides us with additional flexibility to take returns-enhancing actions and progress the Non-Core rundown, as we aim to converge Group returns towards Core returns.

Thank you, now Jes and I would be pleased to answer your questions.
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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.

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