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Barclays Yankee Bank Credit Forum

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Good morning. It is great to be here at our Annual Yankee Conference and I hope you are having a good day so far.

The Yankee market continues to be a major outlet for our funding at Barclays and it is always a pleasure to see so many of you attend our conference. I met with a number of you yesterday and am looking forward to more meetings this afternoon.

So on to my presentation and the good news first: I looked at my speeches for the past two years and compared it with this time. I am proud to report that this year's version has significantly cut down the on the use of the following words: OpCo, HoldCo, UK resolution, TLAC and MREL and instead has far more usage of the word "returns".

Slide 1: Agenda

In my presentation today I want to do two things:

First, given this is the third time I am talking in this conference I would like to reflect on the progress we have made over the past couple of years, including with regards to a number of metrics you all care about.

Second, as you have heard from Jes at half one results, the restructuring of Barclays is complete and the number one priority for management now is improving Group

returns. While touching upon the Group's strategy towards the delivery of that goal, I want to talk about how various disciplines in Treasury, the area I am responsible for, continue to contribute to that effort.

And before I close I will say a few words on our views regarding the Yankee market.

Slide 2: Completion of Barclays' restructuring: An update on progress

So now a refresher on our progress on slide 2.

When I was presenting to you in September 2015 Barclays had most recently reported a fully loaded CET1 ratio of 11.1%. Two years on at half one this year, we reported 13.1% which is at our end state target of around 13%.

Our total capital ratio in transitional terms has increased by more than 300 basis points during the same time period to reach 20.7% at half one 2017.

Our average UK leverage ratio of 4.8% at half one 2017 is comfortably above the expected 4% minimum requirements and also demonstrates clear improvement over the figure of 4.1% we reported in half one 2015.

Following the proportional regulatory consolidation of Barclays Africa and the Non-Core closure we have most recently reported RWAs of 327 billion sterling, down from 377 billion sterling two years ago.

We have further strengthened our strong liquidity and reported an LCR of 149% at half one 2017 with a liquid asset buffer in excess of 200 billion sterling-a demonstrating growth over the same point in 2015 where we had LCR of 121%.

Finally, two years ago we were only at the start of our MREL journey. Between the end of 2015 and now, we have issued in excess of 20 billion sterling MREL eligible

securities out of our HoldCo. Our half one 2017 HoldCo MREL ratio was in excess of 23% and we are pleased with the progress we are making towards meeting our expected Group end state requirements of 28.5% by the end of 2021.

Needless to say, having reached levels at or above the end state targets we will remain focused on maintaining these levels

But it is not only these metrics that show the progress we have made. We are now a lot more simplified and are focusing on our strategy of being a diversified, Transatlantic Consumer, Corporate and Investment bank.

Since the setting up of Barclays non-core, we have exited 20 different businesses and closed or divested operations in 12 countries.

Headcount, which was in excess of 140 000 when Jes joined in December 2015, now stands at around 80 000.

Alongside this journey we have made significant progress on structural reform this year and remain on track to deliver against our regulatory objectives well ahead of the January 2019 deadline.

First, our Group Service Company, or ServCo, has been formally established as of 1 September this year with the necessary service agreements and internal structure in place and will be fully operational in 2018. As Jes talked about in detail in his address to the equity conference earlier this week, the ServCo 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 and our customers.

Second, we are on track for the transfer of Barclays UK into the new ring-fenced legal entity in the first half of next year and we now have our conditional banking licence for that entity

Finally, with regards to Brexit contingency planning, we are looking to extend the activities of Barclays Bank Ireland or BBI, where we have a banking licence and have operated for almost 40 years. We expect BBI to provide a natural base for us to continue passported activity should this be necessary.

As Jes has mentioned in our half one results, Barclays restructuring is now complete. From here our number one priority is driving our returns to an acceptable and sustainable level and we have set a target of achieving a greater than 10% group return on tangible equity, over time. Now, how do we get there?

Slide 3: Targeting Group RoTE of >10%

Turning to slide 3, Jes and Tushar refer to the principal levers which underpin our confidence in delivering on this target.

The first lever is that we will eliminate costs related to structural reform and restructuring as many of these naturally fall away over the next two years.

The second lever is our plan to improve the returns in our Corporate and Investment Bank through redeployment of capital as well as via cost efficiencies and strategic investments.

And the third lever shows that we will drive cost efficiency for the Barclays group through the service company I mentioned.

Slide 4: How Treasury contributes to driving Barclays returns

So, how does Treasury fit into the goal of driving our returns up to an acceptable and sustainable level? This is what I am going to elaborate on in the second part of my presentation on slide 4.

Within Treasury I look after a number of activities and I would probably call out five specific areas where we can make direct, meaningful contributions to our returns.

So they are: the management of the liquidity asset pool; structural hedging; management of our debt stack and finally; efficient capital allocation and transfer pricing.

It is important, however, to note that Barclays Treasury is not a profit centre. The income generated by these activities is always allocated back to the businesses.

Starting with the liquid asset pool, we manage this as efficiently and profitably as we can within the tight risk tolerance we and the regulators set. As at the end of half one 2017 we had in excess of 200 billion sterling equivalent in our pool as I mentioned and if I compare that with the assets under management of some of the largest asset managers in the world have, this would put us in the top 75.

Our portfolio is prescribed by regulations, specifically LCR, with the portfolio at the end of June made up of 146 billion sterling of cash held at major central banks, and 55 billion sterling equivalent of bonds. These are overwhelmingly what we call Level 1 securities being bonds issued by major governments and various quasi-government agencies and multi-national development banks.

So to manage the pool efficiently, we have a global team based mainly in London and New York. We also have teams in Frankfurt, Singapore and Tokyo making investment decisions including weightings, names, currencies and maturities. We

have an integrated team which raises money and invests providing some interesting cross currency opportunities.

Looking at the investment side, over the investment horizon we not only expect to capture the carry on the bond, but also seeks to capture positive valuation moves. So this active approach, with a diversified mix of currencies, tenors and issuers, aims to minimize the costs of holding this portfolio of low-yielding assets. As a regulatory portfolio, it is also tasked to earn the returns on a stable and sustainable basis and therefore typically hedges large exposures during major exogenous events, which we have had two or three of in the last couple of years, to avoid outsized income volatility in the portfolio.

I want to note that within the portfolio we also have an allocation to Green Bonds, we were the first bank globally to do this, which also helps Barclays to meet its corporate sustainability ambitions. This component of the portfolio currently stands at 1.3 billion sterling, with a goal to reach 2 billion sterling over time, making us one of the largest global bank investors in this growing sector.

The second area where Treasury drives returns is through our management of what we call the structural hedge. Over the past few years one of the key roles of Treasury has been to run the structural hedge for the entire Bank. It is not an area that we typically discuss in detail so I thought I would provide a glimpse into how that operates.

So we have a number of products that are non-rate sensitive and do not have a maturity date, for example the bank's equity and its non-interest bearing current accounts. Due to their nature they cannot be hedged conventionally.

Instead we operate a structural hedge programme in order to mitigate the interest rate risk on these products. The programme is designed to smooth the associated

medium term income volatility. It is often called a “caterpillar hedge” as each month part of the hedge matures and a new trade is entered into to maintain an overall duration, causing the hedge profile to ‘creep forward’ a bit like a caterpillar.

There are two significant benefits to this hedging programme. The first is that it protects returns from sharp falls in interest rates. For example, during 2008-2009, the fall in interest rates from 5% to 0.5% would have reduced the income on our non-interest bearing current accounts by 90% without a structural hedge programme. In fact, we experienced a less than 5% drop in income over this period due to having these hedges in place.

The second benefit is that these hedges reduce the income volatility of the bank’s earnings through a whole rate cycle. The rolling nature of the hedge means that it effectively earns the average swap rate. For example, a 5-year structural hedge will earn fairly close to the 5-year average of the 5-year swap rate through the rate cycle. So this results in a smoothing of our bank’s earnings that avoids the troughs of low interest rate environments and due to the generally upward sloping nature of the yield curve and the term premium for investing at longer tenors the bank’s income is only reduced, compared with not hedging, when rates rise steeply. So for the period from 2000-2017 there are fewer than 12 months where the bank’s income was lower by having the structural hedge in place compared to the nearly 200 months where the hedge was a benefit to the bank.

So I have talked so far about the contribution of the liquidity asset pool and the impact of structural hedging. The third area is near and dear to your heart and that is the management of our debt stack.

As you know, we have a long list of legacy securities, some of which were expensive due to the circumstances they were issued under and others that today may not be achieving from a regulatory perspective what they were designed to achieve when

they were issued. So subject to regulatory consent we will always be on the lookout for opportunities to liability manage them and you have seen us do several exercises of this nature in the last couple of years, which overall have made a positive contribution to the group's earnings.

One way I like describing our Treasury function is that we are 'the Bank within a Bank' and this cannot be explained any better than our role in contributing to capital allocation decisions and the setting of transfer pricing and these are the fourth and fifth areas I am going to touch on.

Although we are now organized across two businesses, Barclays International and Barclays UK, the deployment of capital across the Group is, and will continue to be controlled centrally to optimize Group returns. So it is important to note that the Group dividend and capital repatriation policy requires subsidiaries to repatriate excess capital at the subsidiary level to the holding company, subject to appropriate governance at the entity level.

In Treasury we act as advisors to the Barclays executive committee providing independent advice on the comparison of the impact of a range of different options for deploying surplus capital or distributing it to shareholders. These include balance sheet and management options such as share buybacks, dividends and preference share redemptions, and also investment options such as acquisitions, disposals or growth of a business. If there is a surplus in BUK or BI, the Group gets first call and it is not just recycled. It may be capable of being deployed outside of the business that generated the surplus.

Treasury has a critical role to play in financial resource optimization supported by effective transfer pricing to drive balance sheet strategy and optimise financial resources across the Group. Our objectives are firstly, to pass on the full economics of capital, funding, liquidity and interest rate risk management to our

front line businesses, and secondly, to actively use transfer pricing to drive incentives to shape our balance sheet in line with strategy.

Our transfer pricing framework has evolved with increasing levels of sophistication driving costs and incentives right down to the front line business units at product, relationship and regional level. There are a number of objectives here. Firstly, we allocate the costs of funding assets and the liquidity value of liabilities, incorporating multiple factors such as contractual and behavioural tenors, currency and legal entity considerations. We carefully assess tenors and pricing curves taking account of marginal costs of funding and the incentives required to shape the balance sheet in line with our strategy. Secondly, we allocate the net cost of liquidity stresses. What is the cost of liquidity provision versus the returns of liquidity provision? The net is allocated to businesses. Thirdly, we attribute the consumption of equity based on underlying business risk drivers and leverage utilisation. Another part of transfer pricing is the allocation of the consumption and cost of TLAC/MREL eligible debt and finally we also fully attribute the costs and benefits of our interest rate risk hedging programmes to support businesses in optimising NIM.

These transfer pricing mechanisms work as an integral part of our planning and performance management processes to optimise value. They have been key to creating the balance sheet strength we see today and to optimizing our business portfolio for future returns.

Perhaps I can share just some examples of where these mechanisms and incentives have been instrumental. Since 2009, MREL requirements aside, we have materially reduced our reliance on wholesale funding through incentivising a high quality, behaviourally long and diversified deposit base across retail, corporate and wealth client segments in the UK and internationally. These deposit franchises now underpin the strong liquidity position in our BUK and BI businesses. We have

increased the efficiency of capital utilization through granular analysis of returns, both at a macro level to determine under-performing components of the portfolio, and at a product and relationship level to use capital where it best drives value for clients and shareholders. We have driven more discipline in the use of unsecured funding in our markets businesses. As structural reform has evolved our framework has become increasingly legal entity specific as we seek to optimize current and projected entity balance sheets as well as that of the Group as a whole.

So we will continue to focus on these five areas so that Treasury continues to play an essential role in achieving our goal of delivering acceptable and sustainable returns.

Finally, I wanted to conclude with a few sound bites on how we see the Yankee market going forward. As I have said at the outset it remains our major funding market with approximately 50% of year to date issuance having been issued in this space.

So what should you expect from us for the rest of 2017 and in 2018? Year to date 2017 we have issued a touch over 10 billion sterling equivalent in MREL funding and you will remember that 10 billion sterling equivalent was our expected issuance for the whole year. We do not rule out pre-funding for 2018 if issuance conditions remain attractive. The progress we have made in our MREL build coupled with the lower RWAs we have achieved as a result of Africa proportional regulatory consolidation points to lower issuance amount in 2018 but we will continue to be active in this market. We have guided to an average issuance of around 8 billion sterling equivalent per annum from 2018. 8 billion is like a batting average: some years will be more, other may be less.

As for the composition of our USD issuance, on the senior front we like the fact that the USD market allows us to go for tenors in excess of 10 years which is not a feature



we can easily find in the Euro market. For Tier 2, we also welcome the fact that the USD market has now embraced callable structures, something we felt the Euro market historically had as an advantage over its USD counterpart. Finally, for AT1, we are very aware that we have been absent from the SEC market for some time now, which was partially due to the availability we found in GBP and partially due to opportunities we were shown in the Reg S USD market. However, we are fully aware of the depth of this market and we will continue to monitor it closely.

So in closing, I would like to once again thank you for the support you have shown for the Barclays credit over the years and I am looking forward to spending time with some of you later today.

Thank you.

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