

Goldman Sachs European Financials Conference – Transcript**16 June 2015****Tushar Morzaria, Barclays Group Finance Director****Slide 2: Tushar Morzaria, Barclays Group Finance Director**

Good morning.

I am delighted to be invited to speak at the Goldman Sachs European Financials Conference this year. Today I would like to talk to you about the progress we have made a year on from our Strategic Update in May last year, particularly with regards to: the strong improvement in our capital position; significant progress on the Non-Core run down; the initiatives we have undertaken to deliver a structurally lower cost base; and, of course, you'll want to know how we are travelling towards our targets.

Slide 3: 2014 Strategic Update: Repositioning and simplifying

The overriding objective of our announcement last May was to create a simpler, more balanced Group, able to deliver higher sustainable returns, on a strengthened capital base.

Key elements were: establishing a Non-Core unit, and creating the combined Personal and Corporate Banking business to streamline customer offerings and take advantage of operational synergies; reshaping the Investment Bank for the future, given the market and regulatory environment; strict discipline around allocating capital to each business, and over time reallocating capital from lower returning businesses to growth businesses; and investing in a structurally lower cost base through our CTA programme.

Slide 4: Progress on reallocating capital across the Group

The shape of the Group was changed significantly by the Strategic Update, and by the progress we have made in shrinking the Non-Core unit since. We were overweight in the Investment Bank, and within the IB we were overweight FICC.

With the establishment of Non-Core, we assigned a dedicated management team to run down those areas not Core to our strategy. The initial Core / Non-Core split cut the Investment Bank RWAs by 44%. We have since reduced balance sheet size substantially, taking down the RWAs in Non-Core by 41% to £65 billion, well on track to delivering the 2016 target of £45 billion. The Core of Barclays is now much more balanced with the Investment Bank kept at around 30% of Group RWAs. At Q1 we were slightly below our 2016 guidance of £400bn for overall Group RWAs.

But we will continue to seek the optimal balance across the Group with further reduction in Non-Core RWAs offset by an increase in Core RWAs allocated to growth businesses, and as you know there will also be some RWA inflation to absorb. Leverage exposure at Q115 reflects a significant reduction and a different composition from the 2013 starting point, and we are on track to reduce the exposure to the 2016 guidance of £1.1 trillion.

Slide 5: Five measures that the strategy is on track

When tracking how well we are doing, there are 5 key areas I am particularly focused on. If we make progress on these metrics, quarter over quarter, I am confident we will achieve our targets.

The first is improving Group profitability and building on our current double-digit RoE in the Core. The continued reduction of Non-Core allows us to redistribute capital back to the Core, and reduce the drag Non-Core has on Group returns.

Our capital ratios need to continue to improve. Our initial target is to reach our 11% milestone for CET1 and 4% milestone for leverage, as quickly as we can. We can then build our CET1



towards our end state target of around 12%. As we do this, I also keep a close eye on the progression of TNAV, but my over-riding priority is on capital progression. As we build the capital base, we need to increase profits in order to achieve our returns targets.

In the current income environment – and with impairment at historic lows – cost reduction becomes a key lever. Delivery of our cost programmes and improving efficiency will lead to a structurally lower cost base, rather than just having a cyclical reduction in costs. As you will have heard Antony say, we believe it is through the execution of cost reduction programmes that banks will differentiate themselves. We do believe we are outperforming here, and I'll come back to this in a minute.

Finally, the management of historical conduct and litigation issues - and resolving them in a prudent manner - remains a key priority to allow our strong underlying performance to deliver value to shareholders.

Focusing on these five areas will enable us to generate higher and more sustainable earnings per share, and also increase our capital distributions through dividends over time.

Slide 6: Since we announced the new strategy last year...

A year ago we put a quarter of the Group into a Non-Core unit, and simplified the structure of our Core businesses. As you can see on this chart, every quarter since we have delivered year on year improvements across a number of key metrics: PBT has increased, with a 9% increase in Q1 2015; costs have continued to reduce, decreasing 7% in Q1; the CET1 ratio has increased 110bps with improvement each quarter; and the cost to income ratio has improved 3 percentage points compared to Q1 last year.

Turning now to the headlines of the strong Core business performance in Q115.

Slide 7: Core business performing well with positive jaws



Income was up 2%, with costs down 2% including CTA, leading to positive jaws. PBT was up 14%. On an equity base that was £7 billion higher, this delivered double digit returns of 10.9%, or 11.6% ex CTA.

Slide 8: Double digit returns in the Core business on a higher equity base, and improved IB returns

The double digit Core return on equity is encouraging and only just short of our 2016 returns target of greater than 12%. This is despite that increase in the equity allocated to the Core.

The Investment Bank return on equity of 9.1% for Q1 was encouraging, with solid performances across most product lines. Of course, Q1 tends to be a seasonally strong quarter for Investment Banks, and we clearly we have more work to do to improve returns here. But we have a plan to do this, and we are on track.

Slide 9: Reduction of Non-Core on track

Now turning to the very positive Non-Core run down story. We have reduced Non-Core RWAs by £45 billion to £65 billion at the end of Q1. This Non-Core shrinkage included the completion of the Spanish sale, which contributed about half the £10 billion Q1 reduction in RWAs.

We have also reduced Non-Core leverage exposure by 38% to £236 billion since June 2014, with reductions across all portfolios and a £42 billion reduction in Q1 alone.

Although these headline numbers are pleasing, without the adverse movements in FX rates since we announced the Strategy Update, these reductions would have been even better. The best indicator of our progress on Non-Core asset shrinkage is the £5.4 billion reduction in equity tied up in the unit since 2013. As we continue to exit businesses, we will see step change reductions in RWAs. Just to remind you, the current target for Non-Core rundown to



£45 billion in 2016 is not predicated on the exit of the remaining Europe retail businesses, which are mostly our operations here in Italy, plus Portugal and France. A sale of these businesses would reduce RWAs below that £45 billion target in 2016.

Focusing now on the Non-Core derivative RWAs. You might conclude from the flat RWAs you see here in Q1 that we haven't been busy. Let me assure you, this is far from the case. Over the last year we have continued work on RWA optimisation through tear ups and compressions. Where we have client facing positions which generate significant RWAs, the team is working hard on novations, with buyers and counterparties. This may be trade by trade or may involve packaging up portfolios of derivative assets, by type and geography for example. These packaged trades can be quite complex and time-consuming, for example we recently completed a disposal of 6,000 trades packaged together. Having done this work, we feel we have made significant progress in developing our execution expertise, which should help us to progress the rundown further over the coming quarters.

There are of course some long-dated positions in this back book of derivatives, and there may be movements in the mark to market valuations of these derivatives and in their associated RWAs, and there was some headwind on RWAs in Q1 from the way various rates and currencies moved. However, we feel these assets are appropriately hedged, and it isn't the market risk in such positions that are our major concern. Our primary concern is the measured RWAs and resulting regulatory capital we are required to allocate to the portfolio. As we are able to move these assets and ultimately reduce the associated RWAs in Non-Core, further capital will be redeployed to the Core business.

Costs in the Non-Core continue to trend down, with a 48% reduction year on year to Q1, including the significant effect of the Spanish sale. As whole businesses are sold, further substantial step downs in costs will occur. This will leave the cost of running the residual loan portfolios and some of longer-dated elements of the derivatives back book, where it makes sense to hold onto these assets in the medium term. We will continue to chip away at these costs, but they will be stickier until we make disposals of significant blocks of assets. We are very strict in the methodology of allocating costs to Non-Core and the cost team is focused on ensuring there are no stranded costs in Non-Core, as we progress with the run down.

Slide 10: Development of capital and leverage towards targets

Moving to capital, we have made significant progress on our capital build since 2013. However, we are not slowing our efforts. We want to stay ahead of regulatory requirements. Diligently managing capital growth, and balancing this with dividend distribution to shareholders, is a priority.

We remain on track to achieve our 2016 target, and an end state target of around 12%, even after absorbing significant conduct and litigation provisions. These provisions have had around an 80 basis points impact on our CET1 ratio since 2013. But it is encouraging that we're continuing to increase capital quarter over quarter, even after absorbing these headwinds. As these headwinds go away, we will see the true capital generation of the Group come through. We also continue to pay dividends to our shareholders, with distributions over the last five quarters representing about a 40 basis points reduction in the CET1 ratio.

Now leverage – the progress we have made here has also been very pleasing. We are almost at our target, and the leverage hurdle in the Bank of England stress test proved the adequacy of our plans. As the shape of our balance sheet continues to evolve, so will leverage.

Moving now to costs.

Slide 11: Group adjusted operating expenses - delivery to date

We have made strong progress in reducing the structural cost base of the Group. The reductions last year were split fairly evenly across the IB, PCB, as well as Non-Core. The Investment Bank has benefited from restructuring initiatives to right size the business, and there have been branch transformation programmes in PCB and Africa Banking, alongside the development of the enhanced digital offerings to customers.



In 2014, there were favourable currency moves benefitting Africa, the Investment Bank and Barclaycard. Notwithstanding the impact of movements in FX rates, the cost to income ratio for the Group reduced from 67% in Q114 to 64% in Q115, showing continuing improvement in operational performance. Another way of looking through the impact of FX rates is to look at the cost income jaws, which were positive in the quarter for both the Core businesses and the Group.

Unfavourable FX rate movements are a quite significant headwind to cost performance in the current year, but at this stage we are determined to absorb this, and the increased bank levy, within our cost guidance.

Slide 12: Group and Core cost targets

2014 costs came in at £16.9 billion, just under our guidance of £17 billion. This year we're endeavouring to reduce our cost base to £16.3 billion excluding CTA. I've already talked about Non-Core costs and their substantial reduction to date. In the Core businesses, we will continue to see further efficiencies as CTA programmes mature and deliver structural cost reductions.

We are pleased with our cost reduction performance to date, and remain committed to our 2016 Core target of £14.5 billion.

Slide 13: Path to achieving Core cost target

The initiatives in place to achieve the £14.5 billion 2016 target are across the 3 broad categories of restructuring and rightsizing, industrialisation, and innovation.

Restructuring and rightsizing the Investment Bank has resulted in headcount reductions, primarily in the IB front office. We have reduced costs through building exits, as we look to downsize our real estate footprint. And in the UK and Africa we are rationalising our branch



network and developing more cost effective digital banking channels, which also improve the customer experience. PCB and Africa Banking's net branch numbers reduced by 72 and 47 respectively in 2014, and this trend will continue.

With regards to industrialisation and the optimisation of our IT platform, we have significantly reduced the number of IT applications across PCB, Barclaycard and the Investment Bank. We are running the remaining platforms in a much more efficient way, through standardisation and increased automation.

There are a number of innovation initiatives that are being rolled out across businesses, which are not only beneficial to the customer experience, but also structurally lower the Group's cost base. Examples of the enhancement and growth of digital channels include: over 4 million Barclays Mobile Banking customers in under 3 years since inception, and growing rapidly; on average, a Barclays customer is using mobile banking over 26 times a month while using a branch just twice; we have seen a nearly 70% increase in digitally active customers – 22 million people accessed Barclays through online and mobile banking per week in 2014 compared to just 13 million in 2013; 13% of customers opened accounts digitally, and with the inclusion of those utilising the digital capability in the branch, this figure increased to 32%; this saved over 48,000 hours in branch account opening in 2014 and is expected to save 57,000 hours in 2015. We have seen continued growth in digital consumer lending origination – in April we reached the same amount of digital lending we did in all of 2013, and we estimate we will reach the same amount of 2014 digital lending by September. Pingit customers have increased to over 2.5 million and the amount of money transferred using Pingit per week has more than doubled over the last year, and virtual relationship management options such as social media, video calls and webchat have seen a 300-400% year on year increase.

We are not only providing a great client experience but also taking costs out.

Slide 14: Evidence of execution in the first quarter



So in summary, the Core business continued to perform well in Q1 with PBT of £2.1bn and RoE of 11.6% ex. CTA.

We made further progress in the Non-Core run-down, with RWAs down to £65 billion. On capital, CET1 increased thirty basis points in the quarter. Leverage was flat on the prior quarter. This is all despite absorbing a further provision of £800m for conduct and litigation.

Group adjusted costs of £4.1 billion were down 7% year on year, delivering positive jaws. Having recognised a cumulative £2.05 billion provision for litigation primarily relating to FX, the settlements on 20 May related to the FX and ISDAfix investigations were a positive step in the resolution of legacy conduct and litigation issues.

Slide 15: Progress on meeting 2016 Transform targets

Our 2016 Transform targets remain unchanged from our Strategic Update last year. At the Group level we remain focused on capital growth to achieve a CET1 ratio above 11%; reducing leverage exposure to achieve a leverage ratio of greater than 4%; and a dividend payout ratio in the 40-50% range.

Within the Core, we are running the business for sustainable returns, with an adjusted RoE target of greater than 12%, and through various cost saving initiatives, achieve an adjusted Core cost target of less than £14.5 billion.

The Non-Core target remains to reduce the drag on the Group returns to less 3%, thereby being able to reallocate capital to the Core business – the future of Barclays.

Thank you for your time. I'm now happy to take some questions.



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