Barclays PLC 2017 Interim 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 thanks for joining this second quarter earnings call.

Before I hand over to Tushar to take you through the numbers in depth, I first want to provide you with some thoughts on what was a very important quarter for us in terms of the execution of our strategy, and second give you a sense of our priorities for the Group going forward.

Slide 3: Completed Barclays' restructuring

The last three months saw us complete two key planks of the strategy we set out in March of 2016; and both were achieved ahead of schedule.

First off, on the 1st June, we sold roughly 34% of our shareholding in Barclays Africa. This represented the largest secondary offering ever executed in the continent.

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Having reduced our stake in the business to effectively just under 15%, we have applied for and expect to achieve full regulatory deconsolidation in respect of Africa by 2018.

However, while we await that formal approval, we were pleased to be very recently granted permission to apply proportional consolidation in respect of Africa to a level of just over 23%.

This means that our capital has benefited by 47 bps from the transaction which - coupled with organic capital generation in the quarter - means we are reporting a 13.1% CET1 capital ratio today. That is of course at our end state target of around 13%.

We will realise a further 26 bps of CET1 accretion in due course - half of which is expected to come through later in 2017 when we move down to a 15% regulatory ownership level, and the rest on formal regulatory deconsolidation.

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

It was a very difficult decision to exit the African franchise given our long association with the continent. But it was the right call for the Group, and I am pleased that we were able to achieve our objective well within the 2-3 years we had allowed for the sale.

I am also glad that Barclays will retain an interest in the business through our minority shareholding, and we wish Maria Ramos, and all of her colleagues, every success for the future.

The second major milestone delivered in the Quarter was the completion of the accelerated rundown of Barclays' Non-Core Unit as at 30th June.

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Looking back, in just three years we have:

- eliminated £95bn of Risk Weighted Assets;
- we've sold more than 20 businesses;
- we've exited literally hundreds of thousands of derivative trades;
- we've closed operations in a dozen countries;
- we've returned around £6.5bn of Equity to the Core;
- and we've permanently reduced Barclays' cost base by over £2bn per annum.

Accelerating the rundown of Non-Core has required hard choices and consumed a significant amount of management energy and focus.

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

Now, at just £23bn of Risk Weighted Assets, the residual Non-Core assets no longer require a dedicated unit to manage their continued rundown. So we will fold them back into the Core of the Group.

Tushar will give you more detail on that exercise, including the distribution of Risk Weighted Assets and their impact on business unit performance.

As I have flagged before however, this is the last Quarter in which we will report Non-Core numbers.

In the future there will only be one statement of our financial performance – and that will be on a statutory basis covering the Group and our business units, Barclays UK and Barclays International, - so that investors can see with absolute clarity what we are delivering.

That move is an important step in the normalisation of Barclays. And it is made possible because the completion of the Africa exit, and the accelerated rundown of

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the Non-Core assets, collectively mark the end of the restructuring of the Barclays Group. This restructuring has been a tremendous undertaking.

Slide 4: Transatlantic Consumer, Corporate and Investment bank

But as a result, what you see today is the reshaped business: a simplified and diversified Transatlantic Consumer, Corporate and Investment Bank. Two strong business units in Barclays UK and Barclays International, underpinned by an efficient, effective and innovative Service Company.

What we have now is our geographic footprint for the future. What we have now are the business lines that we will be in going forward. With our performance driven by some 81,000 people, rather than 141,000, as it was when I started here in 2015.

The completion of our restructuring, and the strength of our capital base today - with our CET1 ratio standing at 13.1% - means that we can now turn our full attention, and all of our organisational energy, towards what matters most to our shareholders: improving Group returns.

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

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

Our current returns target is to converge Group returns with Core returns. As we have now closed the Non-Core Unit it is appropriate to move on from that and establish a new goal for the Group.

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Slide 5: Targeting Group RoTE of >10%

So today we are formally setting a target of achieving a greater than 10% Group Return on Tangible Equity, over time.

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

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

- costs from our Non-Core businesses and assets will reduce
- then, costs associated with the set-up of UK ring fence bank will disappear by the end of next year, and there will be an end to the restructuring costs associated with the broader reshaping of the company – including the headwind from the compensation change we implemented late last year.

Collectively, these savings will amount to roughly £1 billion by 2019.

The work to achieve these savings is largely done or in flight. We now need to maintain discipline and focus to ensure that our returns benefit fully from these reductions in costs.

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

Slide 6: CIB has a well balanced, low volatility business model

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

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You can see the fruits of that effort in the performance reported this morning, with strong numbers from Credit on the Markets side and an impressive performance in underwriting in particular, driving a 3% increase in income in the first half.

I am also pleased that we continue to make significant share gains in the Investment Bank.

- In Banking we finished the quarter at the highest global fee share in four years of 4.7%, ranking 6th.
- In Debt Capital Markets we ranked 4th globally - up 110 basis points from the end of 2016 - our highest share for three years.
- This was helped by the strongest performance in over three years in leveraged finance, where we finished 2nd with a 7.4% share.
- And in our home market here in the UK we finished June ranked Number 1 in banking fees with a 10.3% share.

Slide 7: Restructured and repositioned CIB to deliver higher returns

But today the CIB is delivering a Return on Tangible Equity – once the impact of Non-Core re-absorption and the Bank Levy are accounted for - which is still below the cost of capital, and a drag therefore on Group Returns given its relative equity consumption.

So we need to get that number to double digits over time. And we will do this in two principal ways.

The first is through the redeployment of capital within the Corporate and Investment Bank, and improvements in wholesale funding costs.

Slide 8: Focused on two primary levers to improve CIB returns

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Since combining the loan books of the businesses in March 2016 we have worked hard to evaluate returns on overall client relationships.

What we've found is that while the majority of the £90bn loan book supports client relationships which earn us a return greater than our cost of capital, a sizeable proportion of the book currently does not.

So our intention is that by 2019 we will have proactively reallocated the lion's share of Risk Weighted Assets of these lowest returning parts of the portfolio to higher returning CIB clients and products.

In particular, we will look to reallocate a significant proportion of those Risk Weighted Assets to high returning parts of the Markets business which are currently capital constrained.

I want to state clearly at this point that the work undertaken between 2014 and 2016 to reshape, resize, and reposition the Corporate and Investment Bank at Barclays was necessary, and a net positive for the business.

We have seen significant improvement in those parts of the business which are capital light - such as M&A and Underwriting - over the past couple of years. But it is a fact that we have seen some weaker performance – as others have – in the parts of our business which are more capital intensive.

It has become clear that part of the reason for that patchier performance is because, in aggregate, we have pulled back a little too far in terms of Risk Weighted Assets in our Markets business.

Our conclusion is that we have enough capital overall in the CIB today, but that it is not currently deployed optimally. The re-allocation programme we have instituted is intended to address that.

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Allied to that effort is a confidence that wholesale funding costs for the CIB are expected to fall incrementally over the next three years, driven very much by revised issuance assumptions, and improvement in funding spreads.

For example, over the next few years there are expensive legacy debt instruments that either mature or, subject to regulatory consent, are redeemable. These represent opportunities to reduce wholesale funding costs, and we also now aim to issue less MREL in the medium term, driven by lower Group Risk Weighted Assets after the successful Barclays Africa sell down.

Second, we are going to stay focused on improving the cost efficiency of our Corporate and Investment Bank, to create capacity for strategic investments, particularly in technology.

You've already seen some of this cost discipline in the London real estate exit we announced last year, but I will say more on this when I deal with Group expenses shortly.

The returns benefit from the combination of these elements – capital reallocation within the CIB, reduced wholesale funding costs, and an optimised expense line – has the capacity to drive Corporate and Investment Bank returns to double digits based on where we are today.

CIB management are wholly focused on executing on these priorities and at pace.

Slide 9: Targeting Group RoTE of >10%

The third lever of our overall plan to get Group returns to greater than 10% is a continued focus on cost efficiency and operational effectiveness.

We are committed to achieving a Group Cost to Income Ratio of less than 60% over time. In the second quarter that ratio stood at 67%, excluding the PPI charge.

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The £1bn of savings I referred to earlier will take us a very long way towards our sub-60% target. But beyond that we have multiple major initiatives already underway across Barclays which will help us to get there, as well as to create headroom for more investment.

Slide 10: Service Company: Standardising and improving processes to further enhance customer experience and cost efficiency

The foundation of the effort is in our Service Company. This is the hub within which we deliver Group-wide operations, technology and functional services, in a unified approach that is massively simplifying and standardising our processes, and creating synergies in shared services.

One example of that, among many, is how we have integrated no fewer than ten separate fraud handling departments, each with different approaches and resources, into just one. This has reduced duplication of effort and cost, while at the same time delivering a consistent and improved experience to our customers and clients.

The Group also continues to invest in innovation to ensure we are at the forefront of next generation products and services in banking.

Our Mobile Banking App continues to be recognised as the UK market leader, and we are excited to be the first UK bank to enable voice payments for our customers with the launch of 'Siri Payments' next month.

Pingit iMessage payments are now live, allowing IOS 10 users to send and receive money between friends easily via iMessage.

And the recent deployment of a contactless cash feature on Android phones allows a customer to withdraw up to £100 simply by tapping their Android device on an Assisted Service Counter at a Barclays branch.

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This innovation agenda enhances the customer and client experience, making it simpler, faster and more cost effective to do business with Barclays.

We are also working hard to modernise our technology architecture, and I have talked repeatedly about why I regard that as a crucial competitive advantage for any bank hoping to prosper today.

That does mean some upfront investment as we increase automation; ramp up use of the cloud; simplify the platforms for data; improve resilience and security for customers and clients; and deploy innovative technologies. But what it leads to are structurally reduced costs over time, and permanent efficiency gains across all businesses and functions.

A great example of this will be implemented from next month when we begin the migration of 90,000 Small and Medium Enterprise customers to our new acquiring platform, which we've dubbed 'bPaid'.

bPaid delivers a new single billing and settlement platform; a new merchant on-boarding solution; and a new case management and agent servicing desktop to our Barclaycard Business Solutions customers around the world. It is more resilient and can integrate directly with a client's own systems.

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

As we drive technological modernisation we are then able to optimise the workforce to align to standard processes and simpler ways of working. In particular we see a Barclays Group with far fewer expensive 3rd party consultants and contractors.

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Finally, we have embarked on a major initiative to reshape our real estate footprint as a company. We are currently spread across too many sites and in too many locations for the size and strategy of our business today.

Over time we will concentrate our people and equipment in a smaller number of strategic locations which will lead to lower real estate, IT equipment, data centre, and management costs.

One good example of where we're delivering on this approach is in our recent acquisition of a campus in Whippany, New Jersey, where we will bring together the majority of our back office operations and functions currently located across multiple sites in Manhattan. And we'll do this by the end of 2019.

We expect all of this to not only drive savings - which in turn will help to improve returns - but also to create headroom for re-investment in attractive growth areas for the bank.

Slide 11: Creating capacity for investment

Because we do have strong opportunities for growth in Barclays.

Take US cards for example, where we are now the 9th largest issuer by balances and one of the fastest growing businesses amongst the top 10.

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

And today I am proud to announce that we have signed a deal with Uber to provide an innovative co-branded credit card to their customers later this year.

The cards and payments business has very exciting potential, and we want to get after that.

In Barclays UK we also see opportunities for top-line growth. We have 24m customers in the UK, and most of them currently have just one or two products with us. Our strategy for growth is to deepen relationships with as many of those clients as possible over the next few years, and Ashok and his team have exciting plans to do just that.

Slide 12: Group financial targets

When I took over as Group CEO of Barclays, the things that needed to be done to get the bank to the right place to realise its potential were fairly clear.

First was to reset the bank's strategy, which we did in March of 2016. Alongside that we needed to recruit and organise the best possible management team for the business, both at the Executive level and the next tier below. We did that through the Winter, Spring and Summer of last year.

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Next, we needed to execute the strategy - which we have done successfully - culminating in our exit from Africa, and the closure of the Non-Core Unit, in this quarter.

We had to get our capital position to a much stronger place, 150-200 bps above the regulatory minimum. And we've met that target with our 13.1% CET1 ratio print today.

And we needed to continue to prioritise strengthening our culture and controls, which we've attended to.

With all of that accomplished, and while still working to put our remaining conduct issues behind us, our single minded focus now as a management team is now on improving Group returns.

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

With that, let me thank you for your time, and hand you over to Tushar.

Slide 13: Tushar Morzaria Barclays Group Finance Director

Thanks, Jes.

Our Results Announcement presents the H1 financial performance on a statutory basis, which is the way Jes and I now manage the businesses.

To help you understand the Q2 business performance and trends, I thought it would be helpful to highlight material items, and other items of interest, which I have set out on the next slide.

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Slide 14: Material & Other Items – Q217 and Q216

There are two material items in Q2 this year – the charge of £700m for PPI and £1.6bn in losses relating to the Africa sell down. It's worth stressing that these Africa losses don't change the overall capital ratio accretion expected from the sell down.

As a reminder, in Q2 16 there was a £615m gain from the sale of our share in Visa Europe, a charge of £400m for PPI, and £292m of own credit in Head Office income. The latter now goes through reserves, in accordance with IFRS9.

When I run through the underlying performance of our businesses, I will exclude these items, although we have shown the statutory numbers in the tables on the following slides.

The other income and cost items of interest have been listed, including gains on sale of our share in VocaLink and of our Japan JV, to make it easy for you to adjust for them, if you wish to do so.

Slide 15: Group Return on Tangible Equity of 7.2%

Our Group Q2 statutory results were impacted significantly by those two material items, together with another quarter of significant Non-Core losses, as we successfully drove down RWAs to £23bn ahead of the unit's closure on 1 July.

Our sell down of 33.7% of BAGL generated a loss on sale of £1.4bn, largely the recycling of currency translation reserves through the income statement, and also £206m from further impairment of the stake. We still estimate about 73 bps of capital ratio accretion from the Africa sell down, with 47 bps of accretion in this quarter and a further 26 bps of ratio accretion expected in the future.

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Group RoTE excluding these material items was 7.2%, which represents good progress towards the target Jes referred to, of Group returns in excess of 10% over time. Of course we got some benefit from currency moves year on year, particularly the 10% decline in Sterling against the Dollar, which is a tailwind to income but a headwind on the cost line.

Underlying income was flat year on year, with increases in BUK and BI, offset by higher negative income in Non-Core, as we accelerated the derivatives run down ahead of closure.

Other net income was £241m, driven by the £109m gain from VocaLink, and £76m from our Japan JV.

Impairments increased 8% to £527m, largely in Consumer Cards & Payments, although you will see that current delinquency trends in both our US portfolio and the UK credit card business are stable.

Underlying costs excluding the charges for PPI fell 2% to £3.4bn, as the reduction in Non-Core costs outweighed the currency and other headwinds. This resulted in a Group cost:income ratio of 67%, on this basis.

The £700m charge for PPI primarily reflects higher than expected complaints flow over recent months. This results in a residual provision at 30 June of £2.1bn, and that's our best estimate of future expected redress, factoring in the latest data that we have.

In addition to the PPI charge, there are a number of items in Group costs this year which we expect to fall away over the next two years, as you heard from Jes, helping us to get closer to our Group cost:income ratio target of less than 60%.

We generated significant capital ratio accretion of 60 bps in the quarter, with the 47 bps from the BAGL sell down and c.13 bps from other sources, as profits and other actions more than offset the headwinds from the PPI charge and pension

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contributions, to deliver a ratio of 13.1%, which is at our end-state target of around 13%.

RWA's were reduced to £327bn, primarily reflecting proportional regulatory consolidation of BAGL and the Non-Core rundown ahead of closure.

TNAV fell by 8 pence in the quarter to 284 pence, due to reserve movements.

Slide 16: Core delivered an RoTE of 9.7% and cost: income ratio of 60%

The Core business delivered close to double digit underlying returns on an average tangible equity base that was over £4 billion higher year on year.

Core income increased 2%, excluding the Visa gain and own credit from last year's number, with 2% growth in Barclays UK and 1% growth in Barclays International, helped by currency moves.

Impairment increased £38m to £500m. Q2 delinquency trends are reassuring, but we are keeping a close watch on all credit metrics.

Underlying costs, excluding the PPI charges, increased 7%, reflecting currency headwinds, the follow on effects of the compensation award changes introduced in Q4, and investment in business growth.

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Slide 17: Generating a consistently strong Core RoTE on an increasing tangible equity base

Turning now to a slide that will be familiar to you, highlighting Core returns for the last time. You can see again our track record of maintaining around double digit returns, excluding the bank levy and material items, while increasing the equity allocated to the Core from £36 billion to almost £45 billion over the last couple of years.

Now that the Non-Core has been closed, our ambition is for the Group to deliver an RoTE of greater than 10% over time,

Looking now at Barclays UK.

Slide 18: Barclays UK – Robust ROTE of 19.1%

The underlying RoTE for Barclays UK for the quarter was 19.1%, with profits broadly flat year on year, excluding the Visa gain of £151m from prior year income and charges for PPI in both years.

Underlying income increased 2% year on year, with an improved NIM of 370 bps driving an NII increase of 4%.

We previously guided to NIM for the full year of around 360 bps. We do still expect some decline in NIM in the second half of the year, but now expect NIM for the year to be above 360 bps, for the 30 June perimeter. The absorption into BUK of close to £20bn of loans from our ESHLA portfolios in H2 will dilute the full year NIM by around 20bps.

We have been encouraged by the strong growth in deposits. As part of our ring-fencing plans in Q1, we moved some deposits into BI from BUK. Excluding this

shift, deposits were up 3% year on year, with strong current account retention, consistent with the trend we've seen over the last two years.

In mortgages we have had another strong quarter of applications – the highest since 2008, up on what was a strong Q1. This positions us well to grow our flow share going forward. There continues to be pressure on mortgage margins but this business still generates attractive returns for us.

Impairment has remained stable at £220m with improved delinquency rates in the UK cards portfolio versus Q2 2016. We remain comfortable about our risk appetite and impairment trends, and the Results Announcement and Appendix to these slides contain more information on impairment trends across our key portfolios.

Underlying costs increased by 3%, with efficiency savings offset by investment in technology and cyber resilience, and costs to set up the UK ring-fenced bank.

This resulted in a cost:income ratio of 53%, which we plan to take below 50%.

Our strategic focus on innovation and automation, and our market leading position in digital banking, where we have seen an increase of around a third in digital payments and transfers over two years, should create further opportunities for structural cost reductions in Barclays UK.

Slide 19: Barclays UK: Realising the significant opportunity with our 24 million customers by leveraging digital and data

A key strategic priority for us is to leverage our digital capability and data analytics, to drive down structural costs, as well as opportunities to grow both NII and fee income.

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Contactless transactions reached an all-time high in June with a total of 91m transactions completed, with a value of £847m, which was a 133% increase compared with last year.

As you may know, we recently launched digital unsecured lending to our business customers, building on the success with personal customers. We continue to add functionality to our Mobile Banking App –which has seen 19% year on year growth in active users, now at just under 6 million customers.

Turning now to Barclays International.

Slide 20: Barclays International: RoTE of 12.4% reflecting improved returns in CIB

Barclays International has delivered a resilient performance this quarter, with an RoTE of 12.4% and profits flat at £1.3bn, excluding the prior year Visa gain, with an encouraging performance from our Banking operations in CIB, and continued investment in growth in US cards.

Underlying Income increased 1% which reflected the strengthening of the US dollar and Euro versus Sterling, growth across a number of business lines, but a weaker performance from Markets in CIB.

Costs increased by 9%, including currency headwinds, which delivered a cost:income ratio of 63%.

Looking now in more detail at the Corporate & Investment Bank – where Jes has already described how we see the franchise today, and how we are planning to drive returns.

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Slide 21: Barclays International: Corporate & Investment Bank: Strong banking fees delivered RoTE of 11.1%

The CIB delivered an RoTE of 11.1% for the quarter.

Income was down 2%, with good performances in Banking, up 2%, and Credit, up 10%, and significant improvement in Equities up 12%, offset by lower income in Macro.

Within Banking, fees were up 8%, Corporate Lending was down by 11% year on year, while Transactional Banking increased by 4%, due to higher deposit balances.

Other net income was £116m, principally the £109m VocaLink gain.

Costs rose by 5%, primarily due to currency headwinds and the change in compensation awards which I mentioned earlier.

Our conservative wholesale risk positioning is demonstrated in the Q2 impairment release of £1m, with no repeat of the oil and gas charges taken in the prior year.

The RoTE of 11.1% is encouraging, but that would have been 9.3% excluding the VocaLink gain, and the reabsorption of Non-Core assets will of course dilute H2 returns.

So we still have work to do to get to double digits, but are pleased with our market share developments and are confident of getting there over time, using the levers Jes outlined earlier.

Moving on to Consumer, Cards & Payments.

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Slide 22: Barclays International: Consumer, Cards & Payment 9% income growth and 19.4% RoTE

Consumer, Cards & Payments delivered returns of 19.4% in Q2, with continued business growth but profits down by 5%, excluding last year's Visa gain.

Excluding the profit on sale of the Japan JV, RoTE would have been 15.0%.

US loans and advances grew by 7%, with the benefit from currency moves, and this drove an 9% increase in underlying income.

Costs increased by 23% with the impact of currency headwinds and investment in business growth, notably the relaunch of the American Airlines rewards programme, which we expect to generate income growth going forwards.

Impairments are up year on year, reflecting business growth and the portfolio mix, plus currency headwinds.

Following the Q1 asset sale and the new volumes coming through on the high quality American Airlines deal we expect the portfolio mix to continue to shift lower on the risk spectrum over time.

As you can see on the slide in the Appendix that delinquency trends are stable from Q1 to Q2. However, we are keeping a close watch on all credit metrics for signs of any deterioration, particularly in recent vintages.

Payments processed in merchant acquiring are up 9% year on year, to more than £61bn. As Jes mentioned, we are very excited about the growth potential in payments, and in US cards.

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Slide 23: Head Office

I want to briefly cover Head Office given some of the one-time moves in the quarter and the significant own credit income last year.

Loss before tax was £122m, reflecting the recycling of a currency translation reserve loss of £180m relating to Egypt, through other net income. This compared to a profit of £257m last year, which included £292m benefit from own credit. As I've mentioned, since the start of the year, own credit is now taken through reserves, consistent with IFRS9.

Turning now to Non-Core.

Slide 24: Non-Core: Residual RWAs of £23bn on closure, ahead of guidance

We closed the Non-Core unit on 1 July, with £23bn of RWAs, which was comfortably ahead of our guidance of £25bn.

The loss before tax in the quarter was £406m, significantly down year on year, but up on the prior quarter, as we pushed through actions to reduce RWAs ahead of closure.

The loss before tax of £647m for the first half was consistent with the guidance we gave at Q1.

Income for the quarter reduced to an expense of £456m, driven by exit costs in derivatives where we reduced RWAs by a further £3bn.

We were also pleased with the sale of Egypt which delivered a gain of £189m included in Other Net income.

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Although that was offset at the Group level by the currency loss recycled in Head Office, the sale delivered a £1bn RWA reduction and 10 bps of CET1 ratio accretion.

Operating costs reduced to £127m driven by business sales and lower restructuring costs.

Looking now in more detail as to what happens after closure, and in particular where the remaining RWAs are being allocated, and the P&L trajectory.

Slide 25: Non-Core: Closure at 1 July and reabsorption in Core in H217

We are still on track for our previous guidance for a loss before tax in the region of £1bn for the full year.

This implies a loss for the second half in the range £300-400m from the operations absorbed into the Core businesses. Losses are expected to reduce over time and I will cover how we see the cost reduction fitting into the overall Group cost trajectory shortly.

This slide shows where we expect the RWAs to be absorbed by BI and specifically the CIB, by BUK and by Head Office, which takes the assets and RWAs for which there is no natural home, and also where that H2 loss is expected to arise.

You can see more detail on the slide in the Appendix, including the incremental equity allocations as at 30 June, and a rough estimate of the returns drag on the BUK and BI H2 results. The precise effect depends to some extent on the H2 outturn for the current business perimeters, but I hope these numbers will help you model the effects of Non-Core closure going forward.

Turning now to costs.

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Slide 26: Material reductions in our cost base, creating capacity to self-fund investment in the business

Over the past three years, Barclays has taken out approximately £1.5bn on average each year from its cost base.

As you know, last year we switched to a Group cost:income ratio target of below 60% towards which we are making good progress, with the Group cost:income ratio of 67% for Q2, excluding the PPI charge.

Our cost programme encompasses two key parts:

- Costs that are expected to fall out of the cost base naturally; and
- Strategic cost savings, driven by our ServCo, to create capacity for reinvestment in our technology, digital, and business growth.

We anticipate around £1bn of the first type of costs to be eliminated by the end of 2019, as Jes mentioned. These cover around £700m of items such as the structural reform costs, and the headwinds from the change in deferred compensation implemented in Q4 2016, plus a significant reduction in the Non-Core cost base from the £500 million or so expected this year.

Slide 27: Within our end-state CET1 ratio target range

At June 30 we reached a key milestone – our CET1 ratio of 13.1% is at our end-state target of around 13%. That's 60 bps of accretion in the quarter, despite headwinds totalling 27 bps from the PPI charge and pension contributions.

The BAGL selldown delivered 47 bps of ratio accretion in the quarter, while the Egypt sale added a further 10 bps. Profits excluding impacts of the BAGL selldown and PPI added around 30 bps in the quarter. So over the first six months of 2017

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we generated around 65 bps of capital ratio accretion from underlying profits, demonstrating the capital generative nature of our businesses.

In terms of the capital flightpath from here, we see capacity in the future for capital returns to shareholders, and will be in a position to say more on this at the full year results, when we will outline an updated capital management framework, including our dividend policy beyond the 3.0p which we intend to pay for 2017.

Looking at the main tailwinds and headwinds going forward, I've mentioned the strong capital generation expected from our businesses. We expect a further 26 bps from Africa with part coming by year end when we expect to apply proportional regulatory consolidation at the 14.9% ownership level, and the remainder when we achieve full regulatory deconsolidation, which we expect by the end of 2018.

Pensions are a headwind overall, but, following the recent agreement with the pension trustees set out in today's results announcement, a lesser headwind over the next four years than under the previous deficit reduction schedule. So I've highlighted that reduction of around 25bps through 2020, so in effect that's a tailwind versus previous expectations. Over subsequent years of course we have increased deficit reduction contributions, but these are subject to another triennial valuation in 2019.

Regarding IFRS9, there is still a lot of work to do ahead of implementation, but we expect to be in a position to give you an estimate of the effect on our CET1 ratio later in the year.

Our expectation is that the CET1 impact will be transitioned in over the next five years, and if the dynamic transitional proposals are adopted, the effect on CET1 in 2018 will be immaterial, and we expect the fully-loaded impact to be very manageable within our capital plan. Overall we expect to be able to meet our end-state capital ratio target of around 13%, including the effect of remaining conduct

and litigation items, which we are working to put behind us, and that target level does assume the introduction of a UK counter-cyclical buffer.

There has been a lot of discussion of the capital requirements for the Group's subsidiaries, following implementation of structural reform. While there are a number of details still to be resolved, we continue to expect the capital ratios of Barclays UK and Barclays Bank PLC post ring-fencing to be broadly similar to each other, and to the Group based on what we know today.

With our strengthened capital position, we are now able to devote increased management focus to driving Group returns higher.

Slide 28: Transatlantic Consumer, Corporate and Investment Bank

So, to re-cap.

The benefits of our diversification by customer, product and geography continue to show through.

Non-Core has been closed at 1 July, with RWAs of £23bn, ahead of guidance, and this will result in a reduced drag on Group returns from these activities going forward.

We completed the selldown of Africa, delivering 47 bps of capital ratio accretion, contributing to a CET1 ratio of 13.1% up 60 bps in the quarter despite the significant PPI charge

We are on track to deliver our Group cost:income ratio target of below 60% and this is not just through cost-cutting. We have the capacity to invest in growth opportunities where returns are attractive, to drive group returns forwards.

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Our Group returns reached 7.2% in the quarter, excluding the UK PPI and Africa selldown effects, reinforcing our confidence in reaching our new Group returns target of over 10%.

Thank you. Now Jes and I will take your questions, and I would ask you as usual to limit yourselves to two questions each.

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