Barclays PLC Full Year 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. Thank you for joining us today, and welcome also to those joining by phone.

Slide 3: Strong evidence of strategic progress in 2016

Almost a year ago to the day, I set out our intention to accelerate the restructuring of Barclays; to refocus our business as a transatlantic consumer, corporate, and investment bank, anchored in the two financial capitals of the world, London and New York.

To achieve that, we announced a series of strategic actions including:

- the reorganisation of our business into Barclays UK and Barclays International;
- next, the renewal of our commitment to operate a leading global corporate and investment bank;
- next, the reduction of our stake in Barclays Africa, over time, to a non-consolidated level;
- and lastly, the acceleration of the rundown of our Non-Core assets.

The bank has made strong progress against this agenda.

Barclays UK and Barclays International are doing well. The fourth Quarter showed continued progress in those businesses consistent with the full year numbers. Core income was up 14% versus the same quarter last year, delivering positive jaws. And profit before tax in the Core, excluding notable items, was up 39%.

Our Corporate and Investment Bank has solidified its position in the bulge bracket.

Our Non-Core rundown is ahead of schedule.

And, after a successful initial sale of Barclays Africa shares last May, we are now waiting for final approval from the relevant regulators of our overall separation plan, so that we can proceed with the next phase of our sell-down, and we will do that at the appropriate time.

We also made great strides on our structural reform plans in 2016, standing up our Intermediate Holding Company in the US in July, and preparing Barclays UK for legal establishment as our ring-fenced bank in the first half of 2018.

As a result, in 2017, we can begin to move on from the restructuring of Barclays. We can shift our focus solely to the future, and in particular to how we can generate attractive, sustainable, and distributable, returns at a Group level for our shareholders.

Slide 4: Announcing Non-Core closure six months early at June 2017

Getting to this point however has not been easy. In 2016, we applied a ruthless focus to Non-Core, cutting the dividend to fund this critically important work. We sold retail businesses in Spain, Italy and Portugal. We sold cards businesses in Southern Europe; insurance businesses in Spain, Italy, and Portugal: wealth management businesses in the US and Asia; our index business in the Investment Bank; and we closed offices in nine countries around the globe.

Together with an aggressive push to sell or novate other assets and legacy derivatives, these efforts reduced our Non-Core Risk Weighted Assets in one year by £22 billion. £12 billion of that reduction came in the fourth Quarter alone. Our Non-Core Risk Weighted Assets now total £32 billion, which is ahead of our projections for the end of 2016.

So we now expect Risk Weighted Assets in Non-Core to be roughly £25 billion by the 30th of June 2017. Given that progress, today we are announcing that we will close our Non-Core unit at the half year, 6 months earlier than previously targeted.

Our half year results will therefore be the last time that Barclays will report Non-Core separately. From then on, our Core financials will be our Group statutory financials, and we will, in effect, have completed the restructuring of Barclays at that point.

We expect to reduce Non-Core losses significantly in 2017, and for those losses to be well under half of what they were in 2016 - at roughly £1 billion - with most realised in the first half as we complete the closure of Non-Core.

All told this company will have eliminated around £85 billion of Non-Core Risk Weighted Assets, and reduced our headcount through Non-Core by around 10,000 people in just over three years. And we did so in a way which has preserved value and released equity to the rest of the Group.

Slide 5: Africa sell-down on track with consistent capital guidance

Last year we also announced the difficult decision to sell down our stake in Barclays Africa, to allow us to deconsolidate the business as a regulatory matter.

In May we completed an initial sale of 12.2%. Since that transaction, our focus has been on agreeing the separation arrangements between Barclays Group and Barclays Africa. An agreement on the terms of separation is integral to achieving the regulatory deconsolidation in due course.

Planning for the disengagement of two intertwined businesses is a complex matter which has required an extraordinary amount of work. But I am pleased to report that in the last Quarter we have reached an agreement on separation terms with the local management, at a cost of £765 million to Barclays. This is now with the relevant regulators as part of our formal request for permission to reduce our position to its end state level.

Following their approval we will be in a position to proceed with our sell down within the timeframe previously guided to. Based on the year end share price and currency translation, we would expect to realise over 75 basis points of CET1 ratio accretion on regulatory deconsolidation - and this is after all of the separation costs are accounted for.

Slide 6: Strong Core business performance in 2016

Alongside our focus on Non-Core and Africa in 2016, our Core businesses delivered strong underlying performance. Excluding notable items, Profit before tax for the Core was up 4% to £6.4 billion, and Return on Tangible Equity for the year was 9.4%, off a much higher equity base.

For Barclays UK underlying Return on Tangible Equity was an impressive 19.3%, as we continued to help our customers and clients, and contributed to the UK economy.

Slide 7: Barclays is a major contributor to the UK economy

In 2016 Barclays lent £3.6 billion to small and medium sized businesses in the United Kingdom. We wrote nearly £19 billion of mortgages, to almost 90,000 households across the country, including to over 18,000 first-time buyers.

We maintained our leading position in digital banking, and now have 9 million users across our mobile app and internet banking, as well as 3 million users of Pingit. Personal unsecured lending topped £4 billion in 2016, with half accessed through the 6 click process on our mobile app.

Contactless transactions - where we have been a pioneer in the UK - more than trebled in value between 2015 and 2016. Average current account balances were up 14% year on year, and we also saw debit card purchases by those customers rise 12% by volume.

Barclays processed some £260 billion of payments for consumers and businesses in the UK last year, with £1 in every £3 spent on cards going through our payments systems.

We enhanced our customers' experiences, by introducing market-leading innovations like voice security, contactless cash, a new direct investing platform, and our 'collect' cash management service for businesses.

And I personally, was especially proud when Barclays became the first major UK bank to run a TV ad on how people can protect themselves against fraud.

Slide 8: Strong Core business performance in 2016

In Barclays International, the underlying Return on Tangible Equity was 8%. This includes the charge to exit 25% of our London office space which we took in the third quarter, and the cost of the changes we are making to deferred compensation which I will touch on shortly.

Within that, our Markets income rose 9%, with Credit a particular standout. Credit was up 44% year over year, driven by strong performance in secondary credit trading and emerging markets.

Banking income rose 3%, as we advised on 3 of the top 5 transactions globally, covering £513 billion of completed M&A deals, and saw our advisory business in EMEA have its best year ever in 2016. It is particularly noteworthy that of all the peer banks which have so far reported full year 2016 numbers, Barclays is one of only a few which have seen Investment Banking fee income rise year over year, and that's also on a US Dollar basis. And, according to Dealogic, we finished 2016 ranked 5th in the US in terms of fee share [excluding self-led deals], and 3rd in the UK, up one spot in each from 2015. So I would challenge the notion that only US banks gained share in investment banking in 2016.

Our Consumer, Cards & Payments income increased 21%, driven by growth in all key businesses. Loans and advances in our US card business are now over £20 billion, and in our payments business we processed £60 billion in the fourth Quarter alone – up 13% year over year.

And, to give some context on relative size, our US cards business is noticeably larger now than our UK cards business in terms of receivables.

We remain focused on driving improved returns in Barclays International, and in particular in the Corporate & Investment Bank. However the fundamentals of this business today, and its capacity to generate significant profits, are getting better.

Taken together, our Core performance is strong evidence of the potential for this Group and of a bright future ahead.

Slide 9: Operational and technological strength will be a key advantage

As we conclude our restructuring, the next phase of Barclays' development becomes the priority of this management team. Put simply, how do we position Barclays for success not only for the next couple of years, but well into the future? We have addressed the drag of Non-Core, but now we need to look ahead.

We are starting from the premise that operational and technological strength is going to be a key competitive advantage for any global bank in the future. And so our intent is to build Barclays on a foundation of world class core operations and technology.

In the model we envision, core functions for the entire Group are standardised across the company, streamlining costs, driving high-quality analytics, and improving customer experience. By developing a strategic data architecture, which maintains and delivers information across all of our businesses, we can provide them with the ability to use data in new and innovative ways, that allow us to fundamentally rethink the way we run those businesses, and how we serve our customers and clients.

And for functions - including Risk, Finance, and Treasury - this data architecture will also help to improve the quality of the Group's capital allocation, and strengthen our risk management.

By creating shared utilities as the foundation of our company, we can generate efficiency from scale while at the same time ensuring that we deliver world-class customer experience which we believe is key to driving loyalty and long-term growth. This model also allows us to simplify core processes across the bank – everything from how we handle complaints or fraud, to how we on-board a client.

Slide 10: Diversification provides balance and stability

If you then layer our diverse set of market leading consumer and wholesale businesses on top of this state of the art foundation, the prospects for them are truly exciting. Our Core businesses are already high quality, and characterised by deliberate diversity.

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 positioned across the consumer and client continuums.

It is worth noting that around 53% of our income in 2016 was from our consumer businesses, and 47% from our wholesale businesses. This balance between the two is a huge strength for Barclays, giving us opportunities for growth across a wide waterfront, and resilience in earnings if one side of the mix comes under pressure.

We are also well diversified geographically, and this gives us a benefit in both exposure to different economies and significant mix in currency risk. Last year, over a third of our income – roughly 35% – came from the US and with the dollar's strength relative to sterling this was even more valuable to the Group.

Our deliberately heavily weighted exposure to the transatlantic developed economies of the US and the UK, with strong wholesale and consumer businesses in both geographies, is – we believe – a unique and attractive banking model. It gives Barclays the capacity to generate strong sustainable returns at a Group level through any cycle, especially with the reinvestment capacity we expect to generate through cost savings from the single core operational foundation that we are building.

And - if built right - that foundation of shared core operations and technology is scalable, giving us optionality for the future in terms of organic and inorganic expansion. And it is the reason why bringing Paul Compton in as our Chief Operating Officer in the middle of last year, as well as hiring a new Chief Technology Officer, a new Chief Data Officer, and a new Chief Risk Officer, was so critical for the company's future.

Slide 11: Driving cost efficiency towards our target

Cost remains a priority for management, and we continue to target a Group Cost: Income ratio of below 60% over time. We are confident in our ability to deliver on that target given that the Core Cost to Income ratio was 61% in 2016.

We will carry on driving efficiencies where we can, with our priority being to use additional savings beyond our target to reinvest in the business and its supporting technologies. Core costs for 2016 exceeded our previously stated £13 billion target, by some £400m.

Exceeding that target was my decision. In December we identified the opportunity to address some long-standing practices in the way we treat deferred bonuses which reduces the operational leverage we should have in this company.

Under existing deferral arrangements, there is currently a limited relationship between the performance costs booked at Barclays each year, and any changes made to the bonus pool related to that year's performance.

This is a consequence, in part, of overall levels of deferral in prior years, as well as the way in which the costs of those deferrals have been recognised in our accounts. As a result, while shareholders experience the full impact of a fluctuation of in-year revenues immediately, the effect of related decisions on bonuses - which should offset some of that revenue fluctuation - was spread out over future years.

To correct this, we are changing the timing of the accounting for those deferrals, as well as aligning overall levels of deferral in compensation plans across the Group, making them more consistent with our peers. The net effect of these changes is that where, previously, shareholders, in year, saw virtually nothing of the benefit from a declining bonus pool, now they will potentially see around 80% of the benefit of such a decision in year. This will greatly improve our operating leverage.

It is in our shareholders' interests to have a strong relationship between in year revenues and in year bonuses. But fixing this issue meant taking a £395m increase in costs in 2016. I decided that was the right thing to do for the company, despite the impact on our 2016 cost target, and it places the Group on a much better footing going into 2017 and beyond.

And, to be absolutely clear, the overall bonus pool for 2016 is down year on year - despite profits being up - and that is after we already absorbed a very significant currency headwind from the strong US dollar.

If we see opportunities similar to this one in the future, which we believe are the right thing to do for our shareholders' long-term interests, this management team will take those decisions.

Slide 12: Capital position approaching our end-state

Continued progress on our 2016 priorities, together with organic profit generation, have strengthened our capital position in the year. We generated 100 basis points of additional CET1 accretion in 2016 to print a very strong 12.4% ratio at year end.

This progress demonstrates once again the underlying earnings power of Barclays, and the Group's effective capital management. Tushar will give you some further detail about our expected capital trajectory in his remarks shortly.

But what should be clear is that the company has a strong capital position today, with very good ability to generate further accretion. We are consequently well positioned to absorb any headwinds over the next few years, as well as to take advantage of opportunities which make sense in terms of future profitability.

Headwinds may include regulatory changes like IFRS 9, and potential changes to Risk Weighted Asset calculations. Others could arise from conduct matters, which we haven't forgotten we still need to resolve, or in relation to macro-economic or political developments. But regardless of the source, we have incorporated these challenges into our planning and believe we are well-prepared for what lies ahead.

At the appropriate time we will of course update our shareholders, and the market, on our approach to investing and distributing the sustainable ongoing excess capital we will generate as a business. Confidence in our path allows us to start to take advantage of capital as a strength of Barclays.

As an example of this, we recently gave notice that we will be using some of that current capital strength to call one of two remaining dollar preferred shares, equivalent to just under $1.4 billion. This will add about half a pence per share to earnings in perpetuity.

The ability to take advantage of an opportunity like this is the result of the hard choices we made last year. They were the right calls and they have put us on a path to complete our restructuring in 2017, and to focus solely on the future of this bank.

For me personally, it has been an extremely busy, yet rewarding first year. I am continually amazed by the talent that we have within Barclays and the dedication people show to this institution. From my perspective, it is one of the company's greatest assets.

Slide 13: Approaching the end of Barclays' restructuring

But now on to 2017:

- First, we will close our Non-Core unit early and, when we achieve that in June, we will no longer be a bank in restructuring;
- Second, subject to regulatory approval, the next stage of our exit from Africa is ours to complete, and we'll do that at the appropriate time;
- Third, we will continue to execute the development of our company's core operations and technology, as the foundation of Barclays' future success;
- Fourth, we will grow our capital to our target end-state as soon as possible;
- And lastly, we will continue to drive the diverse set of businesses that make up our transatlantic, consumer, corporate and investment bank, to deliver attractive returns to our shareholders.

We are now just months away from completing the restructuring of this bank and I am more optimistic than ever for our prospects in 2017, and beyond.

Thank you. Now let me hand you over to Tushar to take you through the 2016 numbers in more detail.

Slide 14: Tushar Morzaria, Barclays Group Finance Director

Thanks, Jes. I will spend a couple of minutes summarising the financial highlights of the full year and then focus on the Q4 performance across the businesses.

We have as usual highlighted the notable items – and I'm pleased to say that we haven't adjusted for anything material in Q4, although we have called out the additional £395 million for the additional deferred compensation awards that Jes referred to.

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

Slide 15: Our strategy is on track with encouraging progress in 2016

The full year Core RoTE dipped below double-digit at 9.4%, but that figure does include the additional compensation charge, and reflects the significant increase in the equity allocated to the Core.

The Core businesses have shown great resilience in a year of significant political and macro-economic events, with Barclays UK reporting an RoTE of 19.3%, and Barclays International 8.0%.

Our CET1 ratio strengthened significantly to 12.4%, up 80 basis points in Q4, making an increase of 100 basis points for the year. This is strong evidence of our organic capital generation and underpins our confidence in reaching end-state capital levels.

We have announced that we are closing the Non-Core unit ahead of plan at 30th June, with RWAs expected to be around £25 billion and losses reducing significantly in 2017, leaving a reduced drag to be absorbed by the Core businesses following closure.

As we switch our attention to running the Group as a normalised bank, we remain very focused on costs. Having achieved a 61% Core cost-income ratio for the year, with positive jaws, we are on track for a sub 60% Group Cost: Income ratio in a reasonable timeframe.

Slide 16: FY16 Statutory Group results

Before I go into the underlying results, a word on the statutory outcome for the year.

These numbers show the benefit of the significant reduction in the headwind from notable items down by £2.9 billion net to a negative £420 million. We've shown the breakdown of these items in the appendix.

Group statutory profit before tax more than doubled to £3.2 billion, resulting in an attributable profit of £1.6 billion, and a Group statutory RoTE of 3.6%. We've declared a final dividend of 2 pence, making 3 pence for the full year, as previously indicated. Tangible net asset value per share increased 15 pence to reach 290 pence at year end.

Turning now to the Full Year and Q4 Core results, on an underlying basis.

Slide 17: FY16 and Q4 Core financials excluding notable items

Our Core businesses increased underlying profit before tax by 4% to £6.4 billion, and generated an RoTE of 9.4% on an average tangible equity base that was £4.1 billion higher year on year.

Core income increased 7%, with strong growth across Barclays International, which benefited from the stronger dollar, and flat income in Barclays UK, despite the headwind from the UK base rate cut.

Costs were up 6%, with currency headwinds and the additional compensation charge in Q4, partly offset by cost savings across Barclays UK and CIB. But this still delivered positive jaws across our Core businesses.

Impairment rose by £623 million from the historically low levels of last year, driven significantly by modelling updates in our UK and US card portfolios. Delinquency trends are not causing us concern, although higher in US cards, reflecting a change in portfolio mix.

The Core tax charge increased 28%, resulting in an effective tax rate of 30%. This reflected the introduction of the 8% surcharge in the UK and the higher tax rates currently prevailing in the US, where we generate significant profits.

On the right-hand side you can see the Q4 Core numbers. As you know there is some Q4 seasonality, including the bank levy which we can't accrue through the year. So the Core delivered just under £600 million of attributable profit, while PBT was up 39% year on year.

Core income was up 14%, while costs were up 13%. Both reflected the 18% Q4 on Q4 strengthening of the dollar. The Core cost line also included £390 million out of the additional compensation charge. Excluding this, underlying costs were down in constant currency terms.

Slide 18: Generating a consistently strong Core RoTE on an increasing tangible equity base

Overall the combination of that charge and the Q4 bank levy took Core returns below the double digit level we have often referenced, but as you can see from this slide the returns have been pretty consistent, despite the significant increase in equity allocated to Core.

Moving on to the performance of each of the Core businesses, and beginning with Barclays UK.

Slide 19: Barclays UK: Robust RoTE of 17.1% as PBT increased 7%

Income was flat year on year, while costs reduced 1%, delivering slight positive jaws, and a cost:income ratio of 58%, reflecting Q4 seasonality. The full year cost:income ratio was 53% and we still aim to get that down to below 50%. Headline impairment for Q4 decreased 18% year on year. As a result, we reported a 7% increase in PBT and an RoTE for the quarter of 17.1%. Full year RoTE for Barclays UK was 19.3%.

Slide 20: Barclays UK: Resilient NIM and prudent growth in balances

Looking more closely at the income line, both non-interest income and NII were broadly flat. NII accounted for over 80% of income and reflected a net interest margin of 356 basis points. This was down on the Q3 level of 372 basis points which included some one-off treasury income, but slightly higher than we guided to at Q3, resulting in a full year NIM of 362 basis points, up 6 basis points on the year.

I'm pleased that NIM has been pretty stable, as we have maintained pricing discipline in a low rate environment. We continue to estimate a range of 350 to 360 basis points for 2017 – and that's assuming no base rate movements.

Slide 21: Barclays UK: Growth through leadership in digital banking

Our digital business continues to grow strongly. Digital unsecured lending was up by over 40% for the full year with over £2 billion of loans originated, and we are now extending this capability into business banking.

We continue our strategic focus on, and investment in automation, digitisation, and data analytics, creating further opportunities for structural cost reductions. Together with our strict pricing discipline and prudent growth, this makes us confident of being able to sustain attractive levels of returns.

Slide 22: Barclays International: Encouraging performance in CIB and strong growth in Consumer, Cards & Payments

Turning now to Barclays International, which reported year on year income growth of 21% in Q4, reflecting the stronger dollar and underlying growth. PBT was £373 million, down slightly year on year, but this reflected the majority of the £395 million additional compensation charge, without which PBT would have nearly doubled.

Drilling down into the performance of CIB and Consumer, Cards & Payments.

Slide 23: Barclays International: Corporate & Investment Bank – Income increase demonstrating franchise strength

The CIB generated strong income growth in Q4 of 21% year on year, reflecting both the strengthening of the dollar and improved performance in both Markets and Banking.

Markets income was up 31% with strong increases across all businesses. We were pleased with our share of flow business across Markets, as we continued to focus on sustainable client-driven business, and maintained tight control over inventory levels through a volatile period.

Banking was up 14% overall, with banking fees up 42%, driven by advisory income reaching its the highest level since Q1 2014. The banking fee growth was partially offset by margin compression in corporate lending and transactional banking – and of course these income lines have a relatively limited dollar component, compared to Markets and Banking fees.

So overall a good income performance, up 21%, and, while the cost increase was 26%, this reflects the additional compensation charge, without which we would have reported very strong positive jaws. Impairment had a limited impact on the CIB results in the quarter.

Year-end RWAs were up 7% on 31 December 2015, reflecting dollar strength, but were down on Q3. Clearly the negative reported return for Q4, and the 6.1% for full year, aren't where we would like them to be, but looking through the deferred compensation charge, I think we are making encouraging progress and are confident as we enter 2017.

Slide 24: Barclays International: Consumer, Cards & Payments – Strong income and balance growth

Consumer, Cards & Payments had another good quarter, with 22% income growth and strong positive jaws, driven by robust performance across international cards, payments, and our international private banking business.

We are of course keeping a close eye on impairment, which was up year on year, on a loan book that grew 24%. This continues to reflect the shift in mix in cards that we referred to at Q3. However, the higher risk portfolios are performing well on a returns basis … and we do expect some rebalancing over the next few quarters, as the effect of the renewed American Airlines deal comes through. So I would expect some move towards a lower risk mix in 2017, and for that to be reflected in the impairment charge.

Overall PBT was up 4%, delivering a return of 13.2%, and we continue to view this business as providing further growth opportunities, not only in international cards, but also in payments and private banking.

Turning now to Non-Core.

Slide 25: Non-Core: Accelerated rundown throughout 2016

I'll quickly summarise the financials but then focus on the forward trajectory, as the reduction in the returns drag is key to the Group returns profile.

Here we've shown Q4 against Q3, and also the full year comparison. The full year loss before tax was up from £1.7 billion to £2.8 billion, as we accelerated the rundown. This also reflected our decision to take all the exit costs above the line this year, as last year we charged close to £900 million as notables.

The attributable loss was £1.9 billion for the full year, and the Q4 loss before tax was just under £800 million, as we took significant exit costs, on derivatives in particular. This helped us take RWAs down to £32 billion despite currency headwinds, with a reduction of £12 billion in Q4.

Slide 26: Intend to close Non-Core six months early at June 2017, with c.£25 billion of RWAs

The Q4 reduction reflected completion of business sales, with a £3 billion reduction in the quarter – principally southern European cards and Asia Wealth – and progress on the derivatives rundown which delivered a further £5 billion reduction. We also reduced the operational risk RWAs allocated to Non-Core by £4 billion, which recognises the rundown of Non-Core assets. Of course these RWAs have been reallocated back to the Core as our total Group op risk RWAs have not reduced.

So we plan to close the Non-Core unit at 30th June with around £25 billion of RWAs. The principal residual assets on closure are expected to be derivatives, a portfolio of Italian mortgages, and the ESHLA portfolio of high quality sterling loans. There will also be some op risk RWAs remaining that will be absorbed back into the Core, plus some capital deductions, principally PVA, but overall the capital tied up in these low yielding assets will be a single digit percentage of the Group's capital.

We've also shown the quarterly income on this slide, highlighting the significant negative income in Q4, driven primarily by exit costs as we accelerated the derivatives rundown.

Slide 27: Non-Core 2017 loss before tax expected to be approximately £1 billion, weighted towards the first half of the year

You can see here that the full year income was £771 million negative, excluding the ESHLA fair value moves that caused a lot of noise in H1, but which are now much less volatile.

We're pleased with the outcome of the 2016 rundown and while we have further exits to complete in 2017, we expect a much smaller negative income. Costs were £1.8 billion, but with costs in disposed businesses coming out, and non-recurrence of the £400 million of restructuring, we expect a significant reduction this year.

So overall we expect the loss before tax from the Non-Core assets to be in the region of £1 billion in 2017 – and that will be roughly half negative income and half costs. Total losses will be skewed towards H1, with the balance being absorbed into the Core in H2.

For 2018 we are indicating a further reduction in negative income and in operating expenses, and so a materially lower loss to be reabsorbed into the Core. We'll give you more detail on the reabsorption at the half year, but I would just note that the returns drag from the lower losses and capital requirement will be reduced.

Now a few thoughts on impairment and our risk positioning.

Slide 28: Underlying stable trends reflect prudent approach to credit risk management

I mentioned earlier the increase in Group impairment of just over £600 million was in large part driven by one-offs, including the review in Q3 of the impairment models across our credit card portfolios by our new CRO, Venkat.

Our underlying 30 and 90-day delinquency trends for our UK and US card portfolios have been pretty stable, but with increases of 20 basis points in US cards in Q4 reflecting the evolution of business mix.

As I mentioned, I would expect some trend towards a lower risk mix in the US in 2017, and for that to be reflected in the impairment charge. Retail coverage ratios are up, and on the wholesale side, our cautious risk appetite has resulted in limited impairment.

Since the Brexit vote, we have been keeping a close eye on all leading indicators – and have not seen signs of credit stress in the UK. So in summary we remain comfortable with our conservative risk positioning and underlying impairment trends.

Turning now to the changes in deferred compensation which Jes referred to.

Slide 29: Aligning income statement recognition more closely with performance awards

These changes have been made to align income statement recognition more closely to the performance awards granted. Incentive awards were down 1% overall, as we absorbed the currency headwind from the stronger dollar. However the changes added £395 million in aggregate to the compensation charge in the fourth quarter. As a result compensation costs for the full year were up 2%, rather than down 3%.

This slide illustrates the two elements of the changes we have made: we rebalanced the percentage of bonus awarded in deferred form, to harmonise deferral structures across the Group, resulting in 30% of the awards being deferred, compared to 46% in 2015. The increased amount of in-year bonus feeds straight into the income statement resulting in a higher charge than we would have had with the 2015 split.

So less will be carried forward – and the charging of this deferred element has been accelerated, as shown on the right hand side of the slide. Previously none of the deferred awards would have been charged in 2016, whereas now 33% hits the income statement immediately.

We would expect lesser effects of these changes in 2017 and less again in 2018, as they take full effect. We give the forward waterfall of unamortised compensation in the results announcement as usual, and you'll see that the stock of unamortised compensation has reduced significantly.

So other things being equal the difference between the amount awarded and the income statement charge will reduce, thus increasing the sensitivity of the income statement to changes in performance awards.

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

Slide 30: Strong liquidity metrics and good progress in MREL funding and liability management

We maintained a solid liquidity position through H2 in the aftermath of the Brexit vote, ending the year with an LCR of 131%. We also made excellent progress in HoldCo issuance through the year, raising over £12 billion of qualifying MREL – across senior debt and capital.

We continued to optimise our overall funding costs in 2016, redeeming another two of our callable USD preference shares and carrying out further liability management exercises on capital instruments at the OpCo level.

We were also pleased that Moody's recently upgraded their Barclays PLC and Barclays Bank PLC ratings to Baa2 and A1 respectively.

Turning now to our capital position.

Slide 31: Continued CET1 ratio progression in 2016

Our CET1 ratio finished the year at 12.4%, on an RWA base of £366 billion – an increase of 80 basis points in Q4, and up 330 basis points over the last three years. The main UK pension scheme moved from a £1.1 billion deficit to around flat, as the rate moves of Q3 broadly reversed, but we have also demonstrated the capital generation capacity of our businesses.

We expect ratio accretion from selldown of our BAGL shareholding to a level that would permit regulatory deconsolidation, over the next couple of years. As an illustration, based on the year end BAGL share price of 168 Rand and exchange rate of 16.8, we would expect the ratio accretion to be in excess of 75 basis points. Of course there are a lot of assumptions which affect this number but this does factor in all the separation costs.

Our Core businesses are demonstrating organic capital generation. With our CET1 ratio at 12.4%, we are increasingly confident in our capital flight path towards our end-state capital level, although there remain some further headwinds from outstanding conduct and litigation, and, over time, from IFRS9 and potential RWA recalibration, notably operational risk.

You'll be familiar with the component parts of our potential 2019 CET1 requirement. As you know, we are moving down a notch on the G-SIB buffer to 150 basis points, but for the moment we are planning to use this 50 basis points to hold an increased management buffer of 150 to 200 basis points above this regulatory level.

Having taken into account the 450 basis points drawdown in the recent Bank of England stress test, we are likely to target the upper end of that buffer range so close to 13%. Lastly the leverage ratio improved to 4.6%, comfortably above our regulatory minimum.

Slide 32: Our strategy is on track with encouraging progress

So, to re-cap, we continue to make good progress in delivering the plan we announced on 1st March and the diversification benefits of the Group are showing through.

The Core is demonstrating its ability to generate attractive returns.

The Non-Core rundown has proceeded well and, given the strong progress, we are closing the unit six months early.

We have seen significant income growth in certain areas of the Core, notably international cards, but recognising the income outlook is uncertain, we remain focused on achieving a structurally lower cost base, and are on track to hit our a Group cost:income ratio of below 60% over time.

We have continued to apply our conservative risk appetite and, despite the one-off impairment in card portfolios this year, we believe our high asset quality puts us in a good position.

Our capital ratio at 12.4% is on track for our planned end-state level, allowing us to increasingly focus on enhancing returns, as we complete the Non-Core closure, and aim to converge Group returns to Core returns.

Thank you, now Jes and I would be pleased to answer your questions, and I would ask you to limit yourselves to two questions each, so we can give everyone a chance.

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