Barclays PLC FY 2017 Results

Fixed Income Conference Call Speech

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Kathryn McLeland, Barclays Group Treasurer

Slide 2: Tushar Morzaria, Barclays Group Finance Director

Good afternoon everyone and welcome to our Full Year 2017 Results, Fixed Income Call

I'm joined today by Kathryn McLeland, who was recently appointed as Group Treasurer as well as Miray Muminoglu, our head of Capital Markets Execution

Let me start with slide 3 and make a few comments before handing over to Kathryn

Slide 3: FY17 Group Highlights

2017 was a year of significant progress for Barclays. We sold down Barclays Africa to a 14.9% holding and closed our non-core unit six months early, ending the year with a 13.3% CET1 ratio

Excluding the impact of the Barclays Africa sell down, litigation and conduct and the DTA impact of US tax reforms, Group RoTE was 5.6% for the year

Whilst the initial impact of US tax reforms was negative, future impacts are expected to be significantly positive for us and we are guiding to a reduced Group effective tax rate in the mid 20's for 2018 and future periods

Impairments were broadly stable year on year and the loan loss rate increased marginally to 57 basis points

Asset quality remained robust with arrears in UK cards showing a small improvement over the year and US card arrears remaining flat, and both at historically low levels

Our businesses performed resiliently. We grew our mortgages and deposits in the UK whilst maintaining our pricing and underwriting discipline. We achieved a full year NIM in Barclays UK of 349 basis points after the reintegration of the ESHLA portfolio, and in line with our guidance of greater than 340 basis points

The performance of Barclays International was impacted by the challenging environment in Markets, although we achieved a very strong result in Banking fees, earning £2.6 billion and our highest global fee share in three years of 4.3%, And whilst Q4 was another tough quarter for Markets, with low volatility impacting the FICC and Equity businesses, we were pleased with our performance relative to peers

We also made significant progress in our international cards and payments businesses, with strong returns and underlying growth in US cards to $28bn and a successful launch of our new merchant acquiring platform

Turning now to slide 4

Slide 4: Transatlantic, consumer and wholesale bank

In summary, 2017 was a transformational year in which we completed the restructuring of Barclays

Whilst we still have some legacy litigation and conduct issues to resolve, we remain comfortable that our capital flight path from here will enable us to satisfy our regulatory requirements and generate capacity for shareholder returns

While it is too early to comment on the 2018 outlook, we note that the recent depreciation of the dollar is a headwind in terms of our sterling results, whilst lower US corporate taxes are a tailwind

In terms of trading, income in the markets business is up year to date, compared to the same period last year, in both dollars and sterling terms, but it is still early days

Looking forward we remain focussed on delivering our Group RoTE targets of greater than 9% in 2019 and greater than 10% in 2020

And shifting the composition of our cost base towards profitable spend so that we can grow our earnings whilst reducing the Group cost to income ratio to below 60%, are the key elements in achieving these targets

We are encouraged by the resilience of our businesses and optimistic about the future

We were pleased today to announce our intention to increase the 2018 dividend to 6 and a half pence, subject to the usual regulatory approvals and stress test outcomes, an important milestone for the Group

With that, I'll turn over to Kathryn, who will cover the progress we have made on our capital, funding and liquidity this year

BARCLAYS

Slide 5: Kathryn McLeland, Barclays Group Treasurer

Thank you Tushar and to everyone for joining the call today

In 2017 we continued to strengthen our balance sheet, further improving our capital, funding and liquidity positions

Our CET1 ratio grew by 90 basis points over the year to 13.3% and we ended the year with a Liquidity Coverage Ratio of 154%

From a funding perspective, we continued our well established HoldCo issuance programme, issuing the equivalent of £11.5 billion during 2017

We also made good progress on our ring-fencing plans, including the stand-up of our Group Service Company in September and we are now poised, subject to court approval, to stand-up our new ring-fenced bank in April

We feel confident about the prospects ahead as we position the business for improved returns

I will begin by looking at capital and leverage in more detail, which you can see on slide 6

Slide 6: Further improved CET1 and leverage ratios

The net 90 basis points accretion in our CET1 ratio was driven by underlying profit generation of 90 basis points, 60 basis points from the sell-down of Barclays Africa and other RWA reductions of 40 basis points

These items more than offset around 100 basis points of impacts coming from dividends, the US DTA re-measurement, litigation and conduct, pension contributions, and the redemption of the 7.1% Series 3, US dollar preference shares

Turning now to leverage

As a reminder, for consolidated leverage requirements, we are currently required to comply only with the UK regime which exempts cash held with central banks. From 2019, we will also be required to comply with the CRR regime

We currently disclose the UK leverage ratio on an average basis each quarter using the month end positions within the quarter. We also disclose the UK and CRR ratios on a spot basis for the period end

From Q1 of this year the average reporting will move to a daily basis

At full year, the average UK ratio was 4.9%, up 40 basis points year on year, driven by a decrease in leverage exposure from the sell down of Barclays Africa and non-core reductions, as well as AT1 issuance - comfortably above the expected 4% minimum UK requirement applicable from 2019

We know that there is growing interest in leverage requirements, and we have included a new slide in the appendix, which sets out our understanding of the key requirements under both the UK and CRR regimes. We also note that the Financial Policy Committee plans to review the UK leverage ratio framework this year, and we will of course watch these developments closely

Based on the results of the 2017 Bank of England stress test, which resulted in a 5% "drawdown" of the CET1 ratio and a rounded 1.4% "drawdown" of the leverage ratio, we continue to view leverage as a back-stop measure

Turning now to slide 7 and our future CET1 ratio expectations

Slide 7: Managing evolving future minimum CET1 levels

As a reminder of our approach to capital planning - we continue to manage our Group CET1 ratio as a function of expected future minimum levels and CRD 4 buffers plus a prudent management buffer designed to maintain the ratio comfortably above our mandatory distribution restrictions hurdle and to reflect stress test outcomes

This slide will be familiar to many of you

At Q3, we were already incorporating our 2018 Pillar 2A requirement. However, as a percentage of our lower year end RWAs, we are now showing Pillar 2A at 2.4%, up from 2.3% at Q3

At 13.3%, our full year CET1 ratio remains comfortably within our expected end state range of around 13% and we have material organic earnings capability as the underlying 90 basis points of profit generation in 2017 demonstrated

With the triennial pension fund review concluded, and the day one impact of IFRS9 estimated , we are operating from a position of capital strength, shown in the planned restoration of the ordinary dividend

It is however worth spending a moment on IFRS9 which went live at the start of this year

On a fully loaded basis, the estimated day one impact on the CET1 ratio is around 34 basis points compared to the 40 basis points we estimated at Q3

On a transitional basis, the ultimate end-state effect is expected to be a few basis points below this

Remaining headwinds include litigation and conduct and the Basel 3 reforms, or so-called “Basel 4”

Regarding “Basel 4”, we of course note the finalised reforms published on the 7th of December

At this moment, we do not think it is appropriate to try and quantify the likely outcome for you. But we expect to do so once we have more clarity on the detailed calculations, the scope for PRA interpretation, and of course the impact of any management actions – and we remain confident in our ability to manage regulatory change

However, the expected 2022 implementation date for these reforms, as well as for market risk, and the five year phase-in period for output floors to 2027 are very helpful in providing time for the sector to adjust to the new requirements

With the advent of ring-fencing, there has been some interest in understanding the capital requirements of the future ring-fenced and non-ring fenced banks

Whilst some elements of the capital requirements remain to be finalised, we continue to guide to an end-state CET1 ratio of around 13% for the Group, incorporating our expectations of capitalisation requirements for these entities. As we have said previously, we expect the legal entity requirements to be broadly consistent with the Group

In terms of our US IHC, we will undertake our first public CCAR exercise this year, having completed a private exercise last year. We expect the results to be published in June

The approach we will take to managing legal entity requirements will reflect that of the Group, and the management of excess capital will continue to be determined by the Group, in line with our stated strategy and risk appetite – just as it is today

As our focus turns to driving returns, the continued management of capital across the Group and its legal entities, to optimally meet internal and regulatory requirements, whilst of course taking consideration of credit ratings, will remain a key focus

Moving on now to CRD IV capital which you can see on slide 8

Slide 8: Transition to CRD IV capital structure well established

At full year, our total capital ratio was 21.5% on a transitional basis, and 20.7% on a fully-loaded basis, representing increases of 190 and 220 basis points respectively from the prior year. These increases were driven by CET1 ratio accretion and AT1 and Tier 2 issuance

In terms of the composition of our total capital stack, we remain incentivised to hold at least 2.3% of RWAs in AT1 format, reflecting the current Group Pillar 1 and Pillar 2A capital requirements permissible in this form

We currently hold 2.9% of AT1s in our capital stack. We are planning to maintain this surplus, to provide optionality to manage our call profile, to accommodate variability in both RWAs and FX, and also to manage our leverage ratio

We also continue to expect to hold at least 3.1% of RWAs in Tier 2 format, again reflecting Group Pillar 1 and Pillar 2A components. We are comfortably above that ratio at 4.2% on a transitional basis and we will continue to manage our HoldCo Tier 2 stack as OpCo Tier 2 reduces over time

Turning now to our MREL position on slide 9

Slide 9: MREL issuance remains on track

We remained active in 2017, issuing a total of £11.5 billion equivalent from the HoldCo in maturities ranging from five to thirty years, and comprising 6.1 billion of senior debt, 2.9 billion of Tier 2 and 2.5 billion of AT1

We were really pleased to be the first bank to issue a bond in “green” format based on qualifying UK assets

During the same period, £6.1 billion of BBPLC public senior and subordinated instruments either matured or were redeemed. These included the Series 3, 7.1%

US Dollar Preference Shares, which we redeemed in March, saving around $100 million per year in coupon costs

For this year, and subject to market conditions, we expect to issue around £10 billion equivalent in total from the HoldCo

On this slide, we show our current HoldCo MREL position compared to expected, end-state requirements. We follow the debate on European Commission MREL proposals and continue to expect that all of our Holdco issuance to date will benefit from permanent grandfathering

At full year 2017, our HoldCo MREL ratio was 25%, compared to 28.2% on a transitional basis

We expect a Group, end-state 2022 requirement of 29.1% of RWAs to be our binding constraint, given that OpCo legacy capital is not expected to qualify from that time

As you can see, the expected end state requirement takes into account an anticipated 1% Countercyclical buffer, which translates to around 50 basis point for Barclays, and is prior to any MREL management buffer

We have got off to an active start this year, issuing £2.4 billion of senior unsecured debt from the HoldCo. We have also been active in other markets in preparation for ring-fencing

For example, following our £1 billion 3-year covered bond in May of last year, we returned to that market with a £1.25 billion 5-year transaction in January

Upon ring-fencing, covered bonds are expected to transfer to Barclays Bank UK PLC through the ring-fencing transfer scheme, supplementing its sizeable and high quality deposit base

Whilst deposit funding is expected to remain the mainstay of Barclays Bank UK PLC's funding base, modest secured and short-term issuance, such as CDs, CPs and MTNs, are expected to complete its funding profile along with internal MREL

Also in January, we returned to the public markets for OpCo debt, issuing 3 billion US Dollars of three year paper from Barclays Bank PLC, the first such public offering in several years

These reflect our long-standing strategy of issuing shorter dated funding, MTNs and Structured Notes from Barclays Bank PLC

Barclays Bank PLC's funding base is expected to comprise a diversified funding mix of deposits, residual outstanding Barclays Bank PLC issued senior debt and capital, secured funding as well as likely shorter dated transactions, such as the three year deals, alongside CDs, CPs and internal MREL

And so, as we complete our MREL build, we expect to remain predominantly a HoldCo issuer for public unsecured funding of three years or more, and we are pleased with the continued progress we have made on this transition

Progress on relevant regulation also continued in 2017

We welcomed the October consultation paper from the Bank of England on internal MREL. A Policy Statement is due to be published later this year which will facilitate the documentation of our internal funding arrangements in order to be compliant with our 2019 MREL requirements

The October 2017 Consultation Paper on Double Leverage was also noteworthy

It provided a helpful insight into how double leverage could potentially be deployed within the UK framework, as it is in other jurisdictions

Importantly, the PRA expects to monitor and assess the use of double leverage and will require firms to carefully manage and mitigate cashflow risks arising in normal and stressed conditions

We are reviewing this area as part of our overall approach to capital management, of course also being mindful of rating agency criteria

Turning now to our liquidity position on slide 10

Slide 10: High level of liquidity with a conservatively positioned liquidity pool

We further increased our liquidity pool during 2017, ending the year at £220 billion, an increase of 55 billion over the course of the year. The Pillar 1 LCR was 154%, a surplus of 75 billion to the end-state 100% requirement

Our NSFR also continues to exceed 100%, well ahead of implementation timelines

The increase in the liquidity pool this year has been driven by an increase in cash and deposits with central banks, and has been achieved without a corresponding increase in UK leverage, due to the current treatment of eligible deposits

As we have said before, the quality and quantum of our liquidity are inexpensive credit strengths, which we value

Turning now to our overall Group funding profile on slide 11

Slide 11: Robust group funding profile

On this slide, we set out the components of our funding profile

You can see here an increase in the proportion of customer deposits within our overall funding profile, which has remained very stable over the last several years, and the reduction in our Loan to Deposit ratio to 80%

We have also improved the maturity profile of our wholesale funding, reducing reliance on less than one year funding, which now represents some 36% of total wholesale funding, down from 44% in December 2013

I will now turn to slide 12 to provide an update on structural reform

Slide 12: Structural Reform Programme

We continued to make good progress on ring-fencing in 2017

We stood up Barclays Services Limited, the Group Service Company, or ServCo, in September last year and successfully migrated the requisite assets, contracts and employees to the entity without issue

We have also successfully completed our sort code migration process

The Ring-Fencing Transfer Scheme court hearing and the associated objection process are due to be completed shortly. Subject to court approval, we remain on track for the transfer of Barclays UK into the new legal entity, as a direct subsidiary of Barclays PLC, in April

Today, we have published unaudited, pro forma consolidated financial information for both Barclays Bank UK PLC and Barclays Bank PLC

This information includes illustrative balance sheet and income statements, and provides an indicative view of these two groups at year end 2017

We have also provided bridges between divisional and legal entity disclosures, which you can find in the appendix

Going forward, we plan to publish consolidated legal entity accounts for both Barclays Bank UK PLC and Barclays Bank PLC with our H1 results

On a much smaller scale, our preparations for Brexit continue at pace. These plans are built around an expanded Barclays Bank Ireland being operational by March 2019, in line with the anticipated exit date

The eventual size and nature of the entity is subject to a number of variables, especially the outcome of government negotiations as well as to the requirements of its regulators and clients, and our plans currently remain flexible to meet the varying potential outcomes

Our working assumption is that EU related business and activity would be transferred to Barclays Bank Ireland to enable us to continue to carry out passported activity

Barclays Bank Ireland is expected to remain a wholly owned subsidiary of Barclays Bank PLC. It is expected to be subject to the full prudential regulatory regime of the Central Bank of Ireland and the ECB

So we envisage a moderately sized and well capitalised entity with a balanced make up of assets and liabilities. Liabilities would include diverse and independent sources of funding as well as MREL provided by the Group

The entity would continue to operate, from a business perspective, as an integrated part of the overall business of Barclays Bank PLC

Our objective is to obtain a ratings profile commensurate with that of Barclays Bank PLC and which reflects the increased, long-term significance of this entity within the Group

We are comfortable with our progress and the ability to execute on time and within existing Group cost targets

Turning now to our ratings profile on slide 13

Slide 13: Ratings remain a key strategic priority

Our rating profile has evolved constructively over the last year as rating agencies have expressed their views on ring-fencing, and provided initial ratings for our future ring fenced bank, Barclays Bank UK PLC

Summarising in turn our ratings with each of the three main agencies:

Fitch has assigned an expected long term rating of A+ to Barclays Bank UK PLC. Barclays Bank PLC is currently rated A and was placed on "rating watch positive" in September, due to the expectation that there will be sufficient pre-placed MREL within the entity to receive one notch of Qualifying Junior Debt under their methodology. Barclays PLC remains A with stable outlook

Moody's has assigned a provisional long term rating of A1 to Barclays Bank UK PLC. Barclays Bank PLC and Barclays PLC, rated A1 and Baa2 respectively both remain on negative outlook for a number of reasons, including Moody's views on profitability and the impact of ring-fencing for the former

S&P has assigned a preliminary long term rating of A to Barclays Bank UK PLC, the same as that of Barclays Bank PLC following its upgrade in October, and reflecting the "core" status of both entities under S&P's methodology. Barclays PLC is rated BBB

The ratings of Barclays Bank PLC and Barclays PLC were stabilised in November following S&P's improved view of the UK banking sector which informs the rating

As we have said before, ratings are strategically important to us, and successful execution of our strategy should strengthen our credit proposition, thereby supporting our ratings profile over time

So, to summarise on slide 14

Slide 14: Restructuring completed and focusing on group returns targets

In 2017 we completed the Group's restructuring, selling down Barclays Africa, closing Non-Core six months early and positioning our businesses for future improved Group returns

Our balance sheet is robust with a 13.3% CET1 ratio, high liquidity, a stable funding profile and high quality assets

Our preparations for ring-fencing are nearing completion and Brexit planning is on track

We remain confident in our ability to deliver on the Group's strategy

Tushar, with that, I'll hand back to you

Slide 15: Q&A holding page

Thank you Kathryn. I hope you have found this call helpful. We would now like to open the call up to questions

Please go ahead

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