Barclays PLC Q1 2017 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 thank you for joining this 2017 1st Quarter earnings call.

The performance we have reported today represents a period of strong progress against our strategy, and it's the clearest evidence so far of what this company is capable of delivering once our restructuring is complete.

We are now just two months away from finishing that work – a restructuring that is creating a simplified Transatlantic, Consumer, Corporate and Investment Bank which has the means to produce high quality returns for our shareholders, and on a sustainable basis.

Looking at each of the priorities we set out in March of last year we have cause for confidence in achieving our objectives.

First, our Core businesses continue to perform very well, producing a combined Return on Tangible Equity of 11% in the first quarter. That represents a 110 basis points improvement on an overall tangible equity base that is £5 billion higher than this time last year. Within that, Barclays UK produced another typically strong performance, with an impressive and increased Return on Tangible Equity of 21.6%, driven by income growth, and improvements in Net Interest Margin and Net Interest Income.

From January to March we lent some £4.5 billion in new mortgages to families up and down the UK, including helping over three and a half thousand first time buyers get on the property ladder.

The number of loans which small and medium sized businesses accessed digitally doubled in the first quarter, as we lent some £800 million to enterprises across the country. We are particularly proud to have supported over 21,000 start-ups in the first quarter – that's the equivalent of Barclays backing 235 fledgling companies in this country every day.

And nearly £58 billion of transactions for UK merchants were processed through our Barclaycard Payment Solutions system in the quarter, up 11% on the comparable period last year.

We'll continue to keep a close eye on sentiment and trends of course in the economy, and any uncertainty caused by the General Election campaign will be something we monitor. But our commitment to supporting UK consumers, businesses and the economy more broadly remains resolute, as it has since the Brexit vote of last June.

One particular demonstration that I want to call out is Barclays' commitment to and confidence in the UK, is our announcement today of nearly 750 new jobs created in our operations and technology centres in Radbroke, Northampton and Glasgow, alongside a further 250 roles looking after customers and clients around the country. These are the first steps in a programme which will see Barclays create 2,000 new jobs in the UK over the next three years, as part of a conscious decision to shift the mix of our work-force in operations and technology away from contractors and other temporary staff, towards full time Barclays employees.

We're doing this because we believe that technology must be a core competency of a global financial institution, and we intend to be a leader in the industry. These new colleagues will help us in that effort and I look forward to welcoming them to the company.

And – importantly - this quarter also saw us secure the banking licence for Barclays UK, a huge milestone as we prepare for the stand-up of our ring-fenced bank here in the first half of next year.

Barclays International also had a good quarter, producing an increased Return on Tangible Equity of 12.5%, with profit before tax up a healthy 32%.

Our Consumer, Cards and Payments business remains an exciting growth engine for the Group, producing another very strong quarter.

The Corporate & Investment Bank's Return on Tangible Equity of 8.2% represents a year on year improvement of nearly 100 basis points.

Banking fees were up by 51%. This was the standout performance and we saw continued strong market share gains across M&A, DCM and ECM. In point of fact, we achieved our highest quarterly market share ever in DCM in the first quarter.

We were book-runner on the top seven bond issues, with the largest five in the TMT sector, including issues by Microsoft, Broadcom, Verizon, Apple and AT&T, totalling the equivalent of over £50 billion. In other sectors we led an $8.6 billion bond for Volkswagen and a $9.6 billion issue for the Kingdom of Spain.

In M&A, we are the exclusive Financial Advisor to VCA on the $9 billion offer from Mars, and we acted as Financial Advisor, Corporate Broker and Sole Sponsor for the £3.7 billion merger between Tesco and Booker Group.

In total, we maintained our overall position of 5th across our US/UK home markets for banking fee products, and we were number 1 in the UK.

In the Markets business, while we held share, we didn't do quite as well as I would have liked, particularly in US rates trading this quarter – and that did dent performance. Though we did well in Credit and Cash Equities.

While we are progressing, we still have more work to do, and Tim Throsby, who joined us in January as President of Barclays International and CEO of the Corporate & Investment Bank – completing our Executive team – is already implementing his plans to further strengthen performance. We look forward to seeing the fruits of that work in quarters and years to come.

In aggregate, this strong Core performance across both of our divisions demonstrates once again the quality of the earnings power of this Group, and the value in the diversification we have built into our model. But of course, as I have said repeatedly since I became Group CEO, the key to shareholders fully benefitting from that Core strength lies in closing Barclays Non-Core. And that is why the acceleration of that objective has been so central to our strategy.

At the full year results in February I announced our intention to shut Non-Core 6 months earlier than planned, on the 30th June 2017, and we remain well on track to do so.

We've announced today that Risk Weighted Assets in the unit are down by a further £5 billion in the first quarter to £27 billion – that is close to our anticipated exit target of some £25 billion. And it is especially pleasing to note that we are seeing materially lower losses before tax versus last year, as the drag from Non-Core gets progressively smaller.

The team in Non-Core continues to stay focused on their strategically critical work, including the closing of the sale of our business in Egypt which is just a few days away, and I want to thank them for their commitment and achievements over the past three years.

If you want to see the clearest demonstration to date of the benefit of all that effort for Barclays as a company, then you need only look at the relative Returns on Tangible Equity for our Core, and for our Group, in this quarter.

In March of last year I made the convergence of Group RoTE with our Core RoTE a central objective of our strategy. A year ago the gap between those two numbers was over 600 basis points. Today, if you look through the one-off goodwill write down we've booked in relation to the Africa disposal, that gap is just 200 basis points: 11% RoTE in Core, versus 9% RoTE for the Group. That convergence – a product of the restructuring of the bank we have been engaged on for the past 15 months, and which we will complete in just two months from now – is the main reason why we can move to one set of numbers in our results announcements from the second half of this year on. There will be only one statement of our performance – at a Group level. A Group performance which we as a management team will own, and stand by. And that will represent a huge milestone in this company's journey to normalisation.

Now turning to Africa. As I said in February at our full year results, we have reached an agreement with the local management of Barclays Africa on the terms of separation between our two businesses, which is an essential step in order to proceed with the next stage of our sell down toward regulatory deconsolidation. This agreement is now with the relevant regulators as part of our formal request for permission to reduce our position to its end-state level. We remain engaged with officials in South Africa and elsewhere as we work through the details of the approval process.

Following their approval we will be free to proceed with our sell down within the timeframe previously indicated.

Clearly we will look for the optimal market conditions for any future transactions. However, as a guide, based on the BAGL share price as at the 31st March, and currency translation, we would expect to realise around 75 basis points of CET1 ratio accretion on regulatory deconsolidation - and this would be after all of the separation costs are accounted for.

On the expense line, we printed a Group cost to income ratio of 62% for the quarter, a figure which is converging nicely with our current Core cost to income ratio of only 59%. This is driven largely by the elimination of costs within Non-Core, but also by positive jaws in the Core. We remain well on track to deliver on our commitment of having a Group cost to income ratio of below 60% over time.

Finally, our capital position remains strong as we posted a CET1 ratio today of 12.5%. This quarter we redeemed nearly $1.4 billion of US preference shares, we purchased large blocks of shares for employee compensation schemes, and we made significant contributions to our pension plans. We were able to take these actions in the interests of the company, and still post an uplift in the CET1 ratio, because of the strength of our organic capital generation. It shows, once again, the earnings power of Barclays, as well as the Group's effective capital management programme.

In summary then, this has been another strong quarter of progress against our strategy.

- Our Core businesses continue to perform very well.
- Non-Core closure is now just 63 days away.
- Costs are well under control.
- Exiting Africa is on track.
- And our capital position has never been stronger.

Consequently, I feel pretty good about where we are heading, and I look forward to the now very close day when we can declare our restructuring complete, and emerge as a simplified, high performing Transatlantic Consumer, Corporate and Investment Bank.

Thank you and now let me hand over to Tushar to run through the numbers in detail before we take your questions.

Slide 3: Tushar Morzaria Barclays Group Finance Director

Thanks, Jes.

I'll summarise this quarter's good operating performance across the businesses, and the progress we've made against our strategic goals.

As we indicated previously, we have stopped putting the primary focus on adjusted results, which excluded what we termed notable items. We have to demonstrate going forward that the Group can earn attractive returns on a statutory basis. Of course there will still be material items from time to time that we will call out, in order to help you to analyse the operating trends.

The main non-operating item in the Q1 results is the impairment of our stake in Barclays Africa, allocated to goodwill. This reflects the Barclays Africa share price as at 31st March, and the carrying value in our books, including the separation payments which we outlined at the Full Year Results. The impairment affects the result from Discontinued Operations, but I would stress that performance of the Africa business this quarter remains resilient. This impairment doesn't affect our capital ratio, as goodwill and intangibles are excluded from CET1, nor TNAV, of course.

Slide 4: Our strategy is on track with further good progress in Q117

The Core businesses showed further progress in the quarter, with Barclays UK reporting an RoTE of 21.6%, and Barclays International 12.5%, both up year on year. Overall the Core reported an RoTE of 11.0%, which includes the small loss in Head Office, and more importantly the equity allocated to Head Office. This Core RoTE was up 110 basis points from 9.9% year-on-year and that's despite the £5 billion increase in equity allocated to the Core.

Group statutory RoTE for the quarter was 1.8%. However, the Africa impairment had a 720 basis points effect on this number. Group RoTE excluding the impairment was 9.0%, and you can see the convergence of the Group returns to Core returns, as we progress towards closure of the Non-Core unit on 30th June. We are on track, with RWAs of £27 billion at the end of Q1, and significantly lower losses.

We achieved a Group cost:income ratio of 62% for the quarter just above our target of sub-60%. We remain very focused on cost efficiency and selective investment in business growth.

The CET1 ratio was 12.5%, up from 12.4% at year-end, and is well on track for our end-state levels of around 13%.

We saw significant capital generation from profits, supporting our confidence in the capital flight path, and allowing us to take returns enhancing actions: during the quarter we redeemed another of our US dollar preference shares.

We were also able to absorb capital reductions from the purchase of shares for employee awards which vested in Q1, and the scheduled pension contributions.

Slide 5: Group RoTE converging towards Core

I'll start with the Group results for Q1, before I go into the individual businesses.

Group profit before tax, from continuing operations, more than doubled to £1.7 billion, with a broadly corresponding increase in the tax charge. The increase in PBT reflects strong positive jaws, with a 16% increase in income and a 5% reduction in costs. This was partially offset by a 19% increase in impairment. That doesn't of course include the Africa impairment, which is in the discontinued line.

The increased underlying attributable profit from Africa was more than offset by this impairment, resulting in the Group's attributable profit of £190 million, with

EPS of 1.3 pence, and a Group statutory RoTE of 1.8%. As I mentioned, excluding the effect of the Africa impairment, this would have been a 9.0% Group RoTE.

TNAV per share increased 2 pence in the quarter to reach 292 pence.

Turning now to the Core results for the quarter.

Slide 6: Core RoTE improved 110 basis points to 11.0%

Our Core businesses increased profit before tax by 20% to £1.9 billion, and generated an RoTE of 11.0%, up 110 basis points year on year.

Core income increased 12%, with strong growth across Barclays International, which benefitted from the stronger dollar, and modest growth in Barclays UK, despite the headwind from the UK rate cut.

Core costs were up 6%, reflecting strengthening of the dollar, plus the further effects of the compensation changes implemented in Q4 and selective investment in businesses, as well as in systems and technology, partly offset by cost efficiency savings.

This delivered strong positive jaws from our Core businesses.

Impairment rose by £110 million from the low levels of Q1 last year, reflecting increases in the US card portfolios. However, delinquency trends are not causing us concern, either in the US or the UK.

I mentioned the portfolio mix effect in US cards at the full year. Renewed growth in lower risk portfolios, combined with the impact of an asset sale in Q1, and lower one-offs, are expected to reverse the recent trend of elevated charges in US cards over the next few quarters, and you'll see that Q1 is down on Q4.

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Slide 7: Generating a consistently strong Core RoTE on an increasing tangible equity base

We reported a Core return of 11.0%, back at the double digit level that I have previously referenced. I wanted to stress again the consistency of these returns, despite the significant increase in equity allocated to the Core. It's a good base, as we prepare to re-absorb the residual Non-Core operations mid-year, which will result in some drag on these returns.

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

Slide 8: Barclays UK: Robust RoTE of 21.6%

Income was up 2% year on year, which included recognising a further £24 million from the Visa Europe sale last year - we also have £74 million in Barclays International.

Costs were flat, despite costs related to the establishment of the UK ring-fence, and investment in cyber-resilience and other technology, which we expect to continue through the year.

This delivered slight positive jaws, and a cost: income ratio of 52%, which we still aim to get down below 50% over time.

Impairment increased £32 million year on year, mainly due to the non-recurrence of provision releases which we benefitted from in Q1 last year.

We are continuing to manage risk carefully.

There's been an increased focus recently on credit quality in the UK across the sector, with particular emphasis on credit cards. We've put a detailed slide in the appendix on this, but I want to highlight a couple of points here.

Our 30 and 90-day delinquency trends for the UK card portfolio have been pretty stable in recent quarters – and for Q1 were 2.0% and 0.9% respectively.

There has been a lot of discussion recently on 0% balance transfers. We don't disclose precisely what proportion of our UK balances they represent. However, given some of the estimates we've seen of industry averages, I did want to give you some further colour. We currently have below 30% of the card book in zero balance transfers, and around 90% of those have outstanding durations of 24 months or less. A high proportion of these balances are with existing customers, and those balances generally have shorter zero interest periods.

This is an area where we have many years of experience, which help us to make sound credit decisions and model the behaviour of these balances.

Overall we reported a 1% increase in PBT, but a strong RoTE for the quarter of 21.6%.

Slide 9: Barclays UK: Improved NIM and growth in deposits

Looking more closely at the income line.

NII accounted for over 80% of income and reflected a net interest margin of 369 basis points. This was up year on year, and also up on Q4, as we grew deposits balances and the deposit re-pricing in Q4 fed through, while on the asset side we retained pricing discipline.

We are now refining our expectations for 2017 NIM to the upper end of the 350 to 360 basis points we mentioned at full year – assuming no base rate movements. We aren't prepared to sacrifice returns to go for aggressive volume growth, but we do see some continuing pressure on asset margins.

Non-interest income was up 9%, principally reflecting the £24 million of additional income from the Visa Europe sale.

Slide 10: Barclays UK: Realising the significant opportunity with our 24 million customers by leveraging digital and data

We continue to build our digital presence, and increased digital engagement, as you can see on the left hand side. This gives us significant opportunity with our 24 million customers, through leveraging digital capability and data analytics, creating further opportunities for structural cost reductions, as well as opportunities to grow both NII and fee income. It also enhances our ability to refine credit profiling and manage risk effectively. Together with our strict pricing discipline and prudent growth, this makes us confident of being able to sustain attractive levels of returns.

Slide 11: Barclays International: 12.5% RoTE with profit growth in CIB and Consumer, Cards & Payments

Turning now to Barclays International, which reported year on year income growth of 18% in Q1, reflecting business growth and the impact of the stronger US dollar.

With a 10% rise in costs, including the dollar headwind, Barclays International delivered positive jaws.

Although impairment increased year on year, it was down 19% on Q4, and I'll explain the dynamics that we are seeing in US cards in a moment.

Overall PBT was up 32% year on year, and attributable profit was up 46%, delivering an RoTE of 12.5% for the quarter.

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

Slide 12: Barclays International: Corporate & Investment Bank. Strong banking performance drove 13% PBT growth

The CIB reported a profit before tax of £790 million, up 13% year on year.

Income grew 7% year on year, reflecting a strong performance in Banking, partially offset by lower income in Markets, compared to a strong first quarter in 2016.

Banking was up 18% overall, with banking fees up 51%, our strongest performance in three years.

Corporate lending income was down as a result of fair value movements on credit hedges. But excluding this, lending income was up slightly.

Markets income was down 4%, despite the stronger dollar, on the back of lower income in Macro and Equities, which more than offset continuing strength in Credit.

The decline in Macro income reflected a disappointing trading performance in US Rates, although our client volumes held up relatively well, and FX and Fixed Income Financing both increased year on year. It was also affected by our exit from energy-related commodities business, in the latter part of 2016.

Credit reported another strong performance, particularly in our flow businesses.

In Equities, growth in cash equities and equity financing was outweighed by lower trading income from equity derivatives in the US.

Costs increased 8%, reflecting both the stronger dollar and the compensation changes that we introduced last year. The year on year effects of these changes are skewed toward the earlier quarters, as they were implemented in Q4 and without these changes we would have reported positive jaws.

Impairment again had a limited impact on the CIB results in the quarter.

The year on year increase in RWAs of 5% reflected the strengthening in the dollar.

The RoTE for the quarter was 8.2%, which remains below where we are aiming, but this was a solid performance, led by the advisory and primary DCM deal flow.

Slide 13: Barclays International: Consumer, Cards & Payments. Continued momentum and strong business growth

Consumer, Cards & Payments had another good quarter, with 48% income growth. This did benefit from two items I would call out: income of £192 million from a US card asset sale and £74 million of the Visa Europe gain I mentioned earlier, but income growth was still 19% excluding these items, reflecting continuing controlled growth in US Cards, and a stronger dollar.

Costs increased 19%, also reflecting dollar strength and continued investment in the international cards business.

Impairment in the quarter was up significantly year on year, on a loan book that grew 18%. This continues to reflect the shift in portfolio mix in US cards that we referred to at Q4, with the hiatus in the American Airlines portfolio and growth elsewhere, and of course FX too.

We are now rebalancing the mix across the card portfolios, with the asset sale, which comprised $1.6 billion of higher-risk balances, towards the end of Q1.

Meanwhile the expected growth in some of the lower risk portfolios, such as American, should result in a lower risk mix in US cards through 2017. Our 30 and 90-day delinquency rates for US cards were 2.3% and 1.2% respectively, down after a modest increase in the latter part of last year. There's a slide with some more detail in the appendix.

The overall Q1 impairment charge is down 12% on Q4.

And lastly, when we look at the risk adjusted returns across our US cards portfolios, they remain strong.

So, overall PBT in this business was up 74% and the RoTE was around 36%.

Turning now to Non-Core.

Slide 14: Non-Core: On track for closure at 30 June 2017

As we approach the closure of Non-Core, we saw a significant reduction in the losses, and continued to decrease RWAs towards the targeted level of around £25 billion on closure. Both elements are critical in order to minimise the residual drag on Group returns, after reabsorption into the Core.

The loss before tax was £241 million, well down on both Q4 and Q1 last year. Lower costs of exiting derivatives and loans reduced the negative income, and costs were also down very significantly. The attributable loss was £193 million, less than half of Q4.

Importantly this improved result did not limit our progress on RWA reduction, down close to £5 billion in the quarter to £27 billion.

Now looking at this RWA reduction in more detail.

Slide 15: Non-Core: Rundown guidance

The Q1 RWA decrease reflected further progress on derivatives rundown in particular, which accounted for around half the reduction.

We didn't complete any material disposals in the businesses category, but I would remind you that we have sales of the Egyptian and French banks progressing towards completion, expected to be in Q2, or perhaps early Q3 in the case of France. Overall, with further derivative actions in the pipeline for Q2, we remain on track to close the unit at 30th June.

On this slide we've also shown the guidance of around £1 billion of losses from Non-Core in 2017. This will be skewed somewhat towards H1, with the balance being absorbed into the Core in H2. There's a significant further reduction expected in 2018.

We'll give you some more detail on the reabsorption at the half year.

Turning now to liquidity and funding.

Slide 16: Strong liquidity metrics and good progress in MREL funding and liability management

Our liquidity coverage ratio increased to 140% from 131% at year end, reflecting the £20 billion increase in the liquidity pool.

We made excellent progress in HoldCo issuance in Q1, raising over £6 billion equivalent of qualifying MREL across senior debt and capital, well on track for our planned issuance of around £10 billion for 2017.

The Bank of England has now communicated to us the non-binding, indicative MREL requirements at the consolidated Group level for 2019 to 2022, and these are in line with our previously guided expectations.

We continue to optimise our overall funding costs, redeeming another of our callable USD preference shares – $1.4 billion which paid a coupon of 7.1%. This had a negative effect on our capital ratio, but generates a significant coupon saving going forward.

A few words on Africa, before I finish with our capital position.

Slide 17: Barclays Africa selldown on track

The underlying profit before tax from Barclays Africa was up year on year to £325 million, but after the impairment allocated to goodwill of £884 million, the pre-tax contribution was a loss of £559 million. The operating performance of Africa was resilient, and I would note that the credit impairment charge was down year on year, even in sterling terms.

As Jes mentioned, we remain confident of executing the selldown, and subsequent regulatory deconsolidation, despite the fall in the share price from year end, from 169 to 140 Rand at 31st March. This has obviously had an effect on the calculation of the capital ratio benefit, of close to 20 basis points. However we still calculate around 75 basis points of further ratio accretion, rather than in excess of 75 basis points as signalled at full year, from selldown and subsequent regulatory deconsolidation, and that's based on the 31st March share price of 140 Rand. There are a number of moving parts in this calculation, and we have made no assumption as to any premium or discount that might be applied to the share price in a selldown. However this calculation factors in all the estimated separation costs. The bulk of this benefit comes from the RWA reduction when we achieve regulatory deconsolidation.

The impairment doesn't affect our capital ratio, as goodwill and intangibles are excluded from our CET1. We've summarised on this slide the main elements in this calculation, and there's more detail in the appendix. The impairment also had no effect on our TNAV of course, but it has however reduced the carrying value of Barclays Africa in our books.

As you assess the expected effects of the sell down on our financials, I would also point out that we have built up an accumulated translation loss in the Currency Translation Reserve, in the region of £1.2 billion, reflecting the weakening of the Rand since we purchased Absa.

On selldown and accounting deconsolidation, the translation loss will be recycled through the income statement – but again will not affect our CET1 nor TNAV, as the CTR is already included in both.

Slide 18: On track for end-state capital requirement

Our CET1 ratio was 12.5% at the end of the quarter, up from 12.4% at year end. That was on an RWA base of £361 billion, down £5 billion on year end.

This reduction, combined with underlying capital generation of 33 basis points from Q1 profits, enabled us to absorb negatives of 34 basis points in aggregate and still deliver around 10 basis points of ratio accretion in the quarter.

The preference share redemption represented 13 basis points negative. The effect of share awards vesting in Q1 was a further 12 basis points. This year we bought shares in the market to satisfy most of these awards, rather than issuing new shares, as we have in previous years.

As we discussed at full year the main UK pension scheme is now back in an IFRS surplus, with a result that our deficit reduction contributions in the quarter took 9 basis points off the ratio. We continue to progress discussions with the pension trustees on future contributions, and remain confident of a satisfactory outcome of these discussions.

This quarter again demonstrated the underlying capital generation from our businesses.

I've mentioned the estimated accretion to our CET1 ratio from the Africa selldown of around 75 basis points. With our CET1 ratio at 12.5%, we remain confident in our capital flight path towards our end-state capital level, which is likely to be around 13%, although there remain further headwinds from outstanding conduct and litigation, and, over time, from IFRS 9 and potential RWA recalibration, notably operational risk.

Slide 19: Transatlantic consumer, corporate and investment bank

So, to re-cap:

- We continue to make good progress in delivering our strategic plan in Q1.
- The diversification benefits of the Group are increasingly clear.
- The Core continues to demonstrate its ability to generate attractive returns.
- The Non-Core rundown has proceeded well as we approach closure of the unit at the half year, and the drag on Group returns has reduced.
- We are on track to hit a Group cost: income ratio of below 60% over time.

- We have continued to apply our conservative risk appetite and believe our high asset quality puts us in a good position to deal with any macro-economic risks.
- Our capital ratio at 12.5% is on track for our planned end-state level of around 13%, allowing us to increasingly focus on enhancing returns, as we complete the closure of Non-Core, and converge Group returns to Core returns.

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

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