Barclays PLC Q3 2019 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.

Slide 3: Q319 Group highlights

Barclays generated £1.2bn of Attributable Profit in the third quarter of 2019, excluding the litigation and conduct charges, which largely related to our PPI provision.

We dealt well with some headwinds in our UK consumer business, whilst we produced a good performance in our Corporate and Investment bank, particularly compared to the same period in 2018.

The bank generated Earnings Per Share of 19.7 pence for the first nine months of 2019.

Profit before tax was £1.8 billion in the quarter, and £4.9 billion year to date.

Our Group Return on Tangible Equity of 10.2% for the quarter is a further positive step towards our 2019 target of 9%, which we still feel good about.

Turning to capital, our CET1 ratio stands at 13.4%, as we now account for our Operational Risk more consistently with our UK peers.

To reflect the positive impact of that change we have consequently updated our CET1 target ratio to be around 13.5%.

Our cost to income ratio for the Quarter was 59%, and stands at 62% for the last nine months.

Management focus on cost control remains a priority, and we continue to expect to see positive jaws across the Group over the remainder of the year, and for the full year.

Barclays UK produced good performance in the quarter, resulting in an RoTE of 21.2%, despite a challenging environment.

We grew mortgage balances, though we still see margin compression in what is a competitive market. And we were pleased to land our Net Interest Margin at 310 basis points – which was slightly up on Q2 – despite this pressure.

We continue to invest in our digital capability, and were pleased that in the latest CMA service quality metrics we were voted by UK consumers as the number 1 provider of active mobile banking services.

In September we also started the migration of 1.6 million customers from the Barclaycard legacy app to our award winning Barclays App. Eight and a half million Barclaycard and Barclays customers on one platform means sharing a richer experience with all of them, and provides our customers with access to a larger set of products and services.

The Corporate & Investment Bank produced a 9.2% Return on Tangible Equity in the quarter, and 9.3% year to date.

Markets income was up 13% compared to Q3 of 2018, which was in line with our US peers.

Within that performance, Equities income was up a touch on the comparable period last year, whilst in fixed income, currencies, and credit we saw a 19% improvement in income year on year.

Banking fees were up 33% versus the same period in 2018, reflecting strong performances in advisory and debt capital markets. This actually represents the best third quarter income performance for our Banking business on record.

Our Corporate Banking franchise had another decent quarter, with income up on Q318.

We are maintaining a strong focus on improving returns in the Corporate Bank, with client-by-client plans to grow profitability, especially through increasing higher returning transaction banking revenues.

In our Consumer, Cards & Payments business, we are targeting growth in US Cards, with a particular focus on capturing new partnership opportunities, a core strength of the Barclays franchise in the States.

We are confident in our ability to expand the portfolio further, both from signing new partners over time, and through organic growth of our existing partnerships. Indeed, we expect to announce a new major partnership shortly.

In payments, we are also positioned for growth, and are investing in our digital capabilities to drive that.

For example, in September we went live with our new 'Transact' solution for e-commerce merchants. This delivers a smooth and secure customer authentication process, compliant with PSD2, which optimises the transaction experience and helps to prevent fraud for the merchant.

This is an excellent demonstration of where we've used our leading position as both an issuer and acquirer to create a hugely welcome solution, and we've already signed a number of agreements with clients paying a monthly fee for this state of the art service.

In summary, the numbers we've reported this morning represent another consistent and resilient performance from Barclays, and they show the benefits of our diversified model - one which allows us to weather today's macro headwinds, and grow our businesses and profitability over time.

They also show that we remain on track to achieve our target of a group return of 9% this year.

We continue to target an RoTE of 10% in 2020, though we acknowledge that the outlook for next year is unquestionably more challenging now than it appeared a year ago, in particular given the uncertainty around the UK economy and the interest rate environment.

We'll see what transpires, but we are fortunate to have a strong franchise to deal with challenges when they come.

Finally, as I've said before, we want to continue to return a greater proportion of the excess capital that we generate to our investors.

And so, despite the impact to profitability of the £1.4 billion PPI provision, it remains our intention, in normal circumstances, to pay a total dividend for 2019 of around three times the half year payment of 3 pence.

Now I'll hand you over to Tushar to walk you through the numbers in detail.

Slide 4: Tushar Morzaria, Barclays Group Finance Director

Thanks, Jes.

I'll begin with the results for the first nine months, and then focus my comments on Q3 performance, and the 30 September balance sheet.

Slide 5: Q319 YTD Group highlights

We reported a profit before tax of £4.9bn for the first nine months, generating 19.7p of earnings per share, excluding litigation and conduct.

I'll continue to exclude litigation and conduct charges in my commentary, as usual.

The gap to statutory profitability was principally the additional Q3 PPI provision of £1.4bn, which was within the range we announced in early September, and resulted in a statutory EPS of 10.4p.

Group RoTE for the nine months was 9.7%, with double-digit returns for both BUK and BI.

As Jes mentioned, we continue to target an RoTE for the full year of over 9%, and over 10% for next year.

The nine month return represents a good base for reaching the 9%, despite Q4 seasonality, but the macro headwinds, including the low interest rate environment, are making our targets more challenging, particularly with respect to 2020.

Nevertheless, we grew income 2% year-to-date, with the increase in Barclays International more than offsetting a decline in Barclays UK.

Costs were broadly flat year-on-year, but with positive jaws in Q3, and expected for Q4, and for the year as a whole.

With the income environment, cost control remains a major focus and we've reiterated our cost guidance of below £13.6bn.

Impairment was £1.4bn, up on last year which benefitted from improved macroeconomic variables, but credit metrics remain broadly stable across both secured and unsecured portfolios.

On capital, we've just concluded discussions with the regulators to remove the regulatory floor on operational risk RWAs. This resulted in a reduction in RWAs of £14bn, with an associated increase in the Pillar 2a requirement.

As a result, the capital ratio was 13.4% despite litigation and conduct taking 49bps off capital in Q3.

Focussing now on the third quarter.

Slide 6: Q319 Group highlights

Income increased 8% despite the challenging environment, particularly in the UK, reflecting a strong performance in CIB, where income grew 17%.

The cost print of £3.3bn was down 1%, and reflects cost efficiency measures across the group. This resulted in positive jaws of 9%.

Impairment was £461m, up £207m on the low level we reported last year, due principally to non-recurrence of the significant favourable US macroeconomic updates last year. In contrast, the Q3 impairment this year included a £60m net charge from macro updates, covering both the US and UK.

The effective tax rate, excluding litigation and conduct, was 17%, and attributable profit was £1.2bn. This delivered an RoTE of 10.2%, excluding litigation and conduct.

TNAV of 274p was down 1p in the quarter, as earnings per share of 7.2p and reserve movements were more than offset by the PPI provision and payment of the half year dividend of 3p.

Looking now at the businesses in more detail, starting with BUK.

Slide 7: Q319 Barclays UK

BUK reported an RoTE of 21.2% for Q3, despite the challenging income environment, with income down 3%.

In Personal Banking we saw further strong volume growth in mortgage balances, up £2.9bn net in the quarter, and healthy application volumes, but also continuing tight margins.

In Barclaycard, balances were down from £15.1bn to £14.9bn in the quarter, reflecting both our risk appetite and customer behaviour, and I would expect this trend to continue.

Despite margin pressure and the continuing growth in secured lending the NIM of 310 bps was a slight increase on Q2.

We expect NIM for the full year to be close to this level, as the Q4 NIM will be lower, reflecting both the continuing mix effect of growing secured lending and lower interest-earning lending in cards.

Costs decreased 4% year on year, as efficiency savings more than offset continuing investment. This includes ongoing upgrades to our Barclays App and our digital offering more broadly.

Q3 income was up on Q1 and Q2, and I would note that this was achieved without any debt sales, which are part of our normal business activity in most quarters. We still expect positive jaws for Q4.

Loans were up £4bn overall in the quarter to reach £193bn, and deposit balances continued to grow to reach £203bn.

Impairment for the quarter was just over £100m, well down on the run-rate of around £200m we've referenced in the past. This was despite a charge of around £30m resulting from macroeconomic variable updates.

UK card delinquencies were down slightly, and other credit metrics are benign.

The lower charge reflects some recalibration of our models to reflect experience of customer behaviour over the last few quarters, as well as lower Stage 2 balances.

As a result, although I would expect a higher charge in subsequent quarters, the £200m runrate we've referenced previously is looking like the higher end of the expected range, absent significant deterioration in the economic conditions.

Turning now to Barclays International.

Slide 8: Q319 Barclays International

In BI, income and impairment were both up, while costs were flat, delivering an RoTE of 10.0% for the quarter, up from 9.2% for Q3 last year.

You can see the key financial metrics on this slide and now I'll go into more detail on the BI businesses, starting with CIB.

Slide 9: Q319 Barclays International: Corporate & Investment Bank

CIB reported an RoTE of 9.2% for the quarter, up from 7.0% last year.

Overall income was up 17%, or close to £400m, at £2.6bn. This included, within Markets, a loss of £40m from the mark-to-market on our residual stake in Tradeweb, and a net benefit of c.£90m from treasury activities, including positives from treasury sales, and negatives from CVA hedging.

FICC had a good quarter, up 19%, reflecting strong performance, particularly in Rates and Securitised Products.

Equities increased 5% despite a lower contribution from derivatives, resulting in overall Markets income up 13%, or 6% in dollars.

Banking had a very strong quarter, up 33%, ahead of US peers, with good contributions across M&A, DCM, and ECM.

The Corporate income line was up 1%, reflecting growth in Transaction banking, while the Corporate lending line remained close to the underlying runrate of £200m that we've referenced in the past.

Costs were flat, despite the stronger dollar, as we continued to implement cost efficiencies.

This resulted in positive jaws of 17%.

There was an impairment charge of £31m, which included single name provisions, compared to a net release of £3m last year.

The most significant movement in CIB assets in the quarter, as in Q2, was the result of further flattening of interest rate curves, which led to increases in both derivative assets and liabilities.

There were also further increases in prime balances, as we continued to expand our financing businesses.

RWAs increased by £9bn in the quarter to £185bn reflecting a stronger dollar and levels of trading activity.

Turning now to Consumer Cards & Payments.

Slide 10: Q319 Barclays International: Consumer, Cards & Payments

We continue to generate attractive returns in CCP, while growing the business.

RoTE was 14.0%, down year-on-year, reflecting the unusually low impairment in Q3 last year.

Income increased year-on-year by 7%, or £78m, partly due to the non-recurrence of the £41m loss on Visa preference shares.

We grew the US cards receivables by 4% in dollar terms, notably in the partnership portfolios.

Costs increased 1%, as we continued to invest in the growth of international cards, the private bank and payments.

In payments, we continued to roll out our merchant acquiring proposition in a number of European countries, and this is an interesting growth opportunity going forward.

As we flagged at Q2, impairment is significantly higher than the Q1/Q2 levels, at £321m, which included c.£30m from macroeconomic updates, and we expect Q4 to reflect further seasonal balance growth, through Thanksgiving and Christmas.

However, credit metrics remain well controlled, with not much movement in 30 and 90-day arrears.

Turning now to Head Office.

Slide 11: Head Office

The improved result quarter-on-quarter was driven by the lower level of income expense, following the redemption of the 14% RCIs at the end of Q2.

Income was a net negative of £55m, reflecting c.£30m of residual legacy funding costs, hedge accounting expenses, and the residual negative treasury items.

These negatives were partly offset by the Absa dividend which is received in Q1 and Q3 each year.

RWAs decreased to £13.4bn, reflecting the removal of the operational risk floor.

Slide 12: 2019 cost guidance remains unchanged

I've included a cost summary to emphasise our continuing focus on cost efficiencies, to fund investment spend, and to deliver absolute cost reductions when the income environment requires it.

As I mentioned, we remain on track to meet our cost guidance of below £13.6bn. I would remind you that this was set based on a US Dollar rate of $1.27:£1. Although we had a Q3 cost headwind with an average run rate of $1.23, with the dollar back above the $1.27 level we still plan to come in slightly under the £13.6bn figure.

Slide 13: TNAV progression

TNAV decreased in the quarter by 1p to 274p.

Earnings per share of 7.2p were partially offset by the payment of the half year dividend of 3p.

Net reserve movements were also positive, including the strengthening of the dollar to $1.23 at 30 September. Of course this may reverse in Q4 based on current rates.

The net accretion of 8p from these elements was more than offset by the 9p headwind from litigation and conduct.

Slide 14: CET1 ratio progression

On capital, the CET1 ratio was flat across the quarter at 13.4%

This reflected a 57 bps increase from the removal of the operational risk floor, largely offset by 49 bps from litigation and conduct.

Our businesses remain capital generative, with c.50bps from profits, out of which we accrued 21bps for dividends and AT1 coupons.

The 21bps reflects the final coupon on AT1s we called in Q3, and you would therefore expect a lower capital effect in Q4, and the 13bps from the FX impact of those redemptions will also not reoccur in Q4.

Slide 15: Q319 CET1 ratio of 13.4% benefited from the removal of the operational risk RWA floor by c.60bps

This slide shows the build-up of our capital requirement.

The removal of the operational risk floor has had a positive effect of 57bps on our CET1 ratio.

Our CET1 requirement has also increased, with Pillar 2a up by 35bps, reflecting this and the annual updates.

The result is our regulatory minimum capital level is now 12.0%.

We have therefore updated our target CET1 ratio to around 13.5%.

The operational risk change doesn't affect our overall capital requirement, but does give us a little more flexibility in how we meet this.

In summary, we are still around our target ratio and our confidence in our ability to continue to generate further capital is reflected in our capital returns policy, combining a progressive dividend and buybacks as and when appropriate.

Slide 16: High quality funding position with a conservatively positioned liquidity pool and LDR

Our funding and liquidity position remains strong.

In Q3 we issued a further £1bn of AT1, and we called three outstanding AT1s, totalling £2.3bn sterling equivalent.

Our next potential AT1 calls aren't until December of next year.

Looking at MREL overall, we have issued £8.2bn equivalent in the year to date, in line with our plan to issue around £8bn this year. As usual we will keep an eye on market conditions for pre-funding opportunities.

Our MREL is currently at 30.4%, close to our expected end requirement of 31.2%, which reflects the Pillar 2a update.

The Liquidity Coverage Ratio was 151% at the end of the quarter, with a liquidity pool of £226bn, and our loan to deposit ratio was 82%, continuing to position us conservatively.

Slide 17: Focused on profitability and returning capital to shareholders

So, to re-cap.

We remain on track in the execution of our strategy.

We reported an RoTE of 10.2% excluding litigation and conduct, for Q3 with positive jaws of 9%.

We continue to target an RoTE of greater than 9% and 10%, for 2019 and 2020 respectively, but the macro headwinds, including the low rate environment, are making it more challenging to achieve these targets, particularly with respect to 2020.

Continuing to improve our returns year-on-year remains a key priority for the Group, while also delivering attractive capital returns to shareholders and investing in key business growth opportunities.

We are at our updated CET1 target of around 13.5%, despite the Q3 PPI provision, and with an RoTE for the first nine months of 9.7%, we are well placed to deliver on these priorities.

Thank you, and we will now take your questions, and as usual I would ask you to limit yourself to two per person so we get a chance to get round to everyone.

Important Notice

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Information relating to:

- regulatory capital, leverage, liquidity and resolution is based on Barclays' interpretation of applicable rules and regulations as currently in force and implemented in the UK, including, but not limited to, CRD IV (as amended by CRD V applicable as at the reporting date) and CRR (as amended by CRR II applicable as at the reporting date) texts and any applicable delegated acts, implementing acts or technical standards. All such regulatory requirements are subject to change;
- MREL is based on Barclays' understanding of the Bank of England's policy statement on "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)" published in June 2018, updating the Bank of England's November 2016 policy statement, and the non-binding indicative MREL requirements communicated to Barclays by the Bank of England. Binding future MREL requirements remain subject to change including at the conclusion of the transitional period, as determined by the Bank of England, taking into account a number of factors as described in the policy statement and as a result of the finalisation of international and European MREL/TLAC requirements;
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i. all regulated activity and client base of the European branches of Barclays Bank PLC ("BBPLC") as at 31 December 2018; and
ii. all regulated activity of European clients of BBPLC who were located within the EEA (excluding the UK) as at 31 December 2018.

The Illustrative Financial Information represents a modelled view including estimates based on Barclays' current planning assumptions for the business and operating model for BBI, and is presented to show the possible effect of the proposed business transfers as if they had occurred on 31 December 2018. In addition to this, certain of the Illustrative Financial Information has been sourced from the BBI 2018 statutory accounts, management accounts of BBI up to 31 December 2018 and also the general ledger. The Illustrative Financial Information has not been independently verified. While Barclays' plans for an expanded BBI in response to the UK's withdrawal from the EU are well progressed, they remain subject to the outcome of the political negotiation, ongoing regulatory engagement and management discretion, and so are subject to changes which may be significant. Among other variables, the actual amount of In-Scope Business that may ultimately transfer to (including, but not limited to, as a result of what activity is finally determined to be regulated activity) and/or continue to trade with BBI in the future may differ significantly from the assumptions used in producing the Illustrative Financial Information. The Illustrative Financial Information is therefore provided for illustrative purposes only and is not a forecast of present or future financial condition or performance of BBPLC or BBI. Whilst all reasonable care has been taken in providing the Illustrative Financial Information no responsibility or liability is or will be accepted by Barclays PLC and any of its subsidiaries, affiliates or associated companies or any of their respective officers, employees or agents in relation to the adequacy, accuracy, completeness or reasonableness of the Illustrative Financial Information or for any action taken in reliance upon that information by any party whether customer, client, counterparty, investor or otherwise. Nothing in the relevant slide should be taken as (or is) a representation or warranty, express or implied, as to any of the matters presented.

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Non-IFRS Performance Measures

This presentation includes certain non-IFRS performance measures, such as income statement and financial performance measures excluding litigation and conduct. These measures are defined and reconciliations to the nearest IFRS measures are available in the appendix to Barclays Group's results announcement for the period ended 30 September 2019.