Barclays PLC H1 2014 Interim Management Statement

Analyst and Investor Conference Call

<u>Antony Jenkins, Chief Executive Officer</u>

Slide 3: Good progress with tangible results

Good morning.

I want to give you an overview of our performance, before I ask Tushar to set out the half year results in more detail.

The strategy I set out in February 2013, and updated on May 8 this year, was based on a very simple conviction:

We need to reposition and strengthen Barclays fundamentally to meet the challenges of the future – and to do so in the right way.

To build a Barclays that is simpler, more focused, better balanced and so, more resilient and able to deliver returns and growth across the cycle.

Our plan to make Barclays fit for the future is working.

We are making positive progress against all the key metrics we have identified and we can now see the new Barclays starting to emerge.

Profits are up in Personal and Corporate Banking and Barclaycard, and in Africa Banking excluding the impact of FX, while performance in the Investment Bank is as we expected at this point in its repositioning.

We have had a strong start in running down assets in Barclays Non-Core.

Our focus on structural cost reduction has continued with costs, excluding CTA, down for the second successive quarter, and headcount at the lowest level since 2007.

And in the last six months we have improved our CET1 capital ratio to nearly 10% and our PRA leverage ratio by 40 basis points to 3.4%.

This is encouraging progress, and it has been achieved in the face of significant headwinds.

The operating environment for our sector remains difficult.

In addition, legacy conduct issues continue to impact our performance.

These are serious challenges, and I will talk more about how we are actively managing them in a moment.

But we designed our Transform plan precisely to withstand these pressures and build a more resilient business.

So despite these headwinds, I am pleased to report an adjusted profit before tax of £3.3bn in H1, underpinned by a Core business that generated £3.8bn of PBT and a return on equity of 11%.

Slide 4: 2016 Transform financial commitments

Now I want to update you on our progress against the six Transform targets that I set out on May 8:

At the Group level, we continue to strengthen the fundamentals.

We have continued to build our capital ratios, despite the PPI headwind, and the Group's CET1 ratio has increased to 9.9%, demonstrating underlying capital generation and the ability to manage risk assets across our businesses.

At the same time, we have improved our leverage ratio to 3.4%.

And finally, on the dividend, we remain committed to a dividend policy of 40-50% and we have again declared a cash dividend of 1p for the quarter.

In our Core business, return on equity remains on target.

Let me remind you briefly of the new, more balanced, structure for our Core business that we set out on May 8:

Personal and Corporate Banking and the Investment Bank are now about the same size, consuming around a third of Core RWAs each, with the remaining RWAs split broadly equally between Africa Banking and Barclaycard.

We are now seeing the benefits of that rebalancing.

Overall, our Core business has performed well, generating an RoE of 11% after costs to achieve, or 13.5% return on tangible equity.

RoE in Personal and Corporate Banking stands at 12.1% and in Barclaycard at 18.9%, while in Africa Banking, return on tangible equity is over 13%.

We continue to work at pace to reshape the Investment Bank and bring it into balance with the rest of our business.

Even in this period of transition, there are signs that our strategy is working:

For example we have broken through for the first time to be the only non-US bank in the top 5 of the Dealogic fee share league tables in the US.

Excluding CTA, the Investment Bank is delivering an RoE of around 8%, which is where we expected it to be at this point in its transformation.

We are also seeing continued momentum on costs, building on the progress we announced at Q1.

Headcount across the Group is now at the lowest level since 2007 and Core operating expenses stand at just under £8bn.

I have said often that cost is the new battleground for our industry, and we are now making the structural shift to strategic cost reduction – taking out costs while improving the customer and client experience.

And we have made a strong start in bringing down the drag from those businesses which will not be part of the future of Barclays.

We have reduced RWAs in Non-Core from £110bn to £87bn in the half, well on track for our full year target of £80bn.

The RoE drag from Non-Core is 4.5%, down from 7.5% at the end of last year and on track for the 2016 target of less than 3% which we guided to in May.

Before I hand over to Tushar, I also want to say something about our approach to conduct risk.

Our sector faces unprecedented scrutiny – for reasons I understand and accept.

This reinforces the critical importance of the on-going cultural change we are undertaking.

Our approach is very clear.

Where there is a case to answer, we will take responsibility, accept the sanction, learn the lessons, and move on.

Let me be very clear: I will not tolerate behaviour that is inconsistent with our purpose and values.

But acting with integrity also means that where our actions are mischaracterised, or we are wrongly accused, we will defend ourselves robustly.

Legacy issues still have a significant impact on our business, and we are working to resolve them as quickly as possible.

So in the second quarter of 2014, for example, we have reached a settlement with the FHFA over Fannie Mae and Freddie Mac, and with the FCA following an incident involving a former Barclays' trader and the Gold Fix.

By contrast, you will also have seen last week that we filed a motion to dismiss the New York Attorney General's lawsuit.

We carried out an extensive review and do not believe that this suit is justified. The complaint is based on clear and substantial factual errors.

Finally, we are working hard to resolve the PPI legacy.

We have cleared more than 95% of the post-2005 claims received.

But in recent months, we have experienced a significant increase in pre-2005 claims, driven primarily by the activities of Claims Management Companies, as we signalled in our Q1 IMS.

In light of this, and noting that we have not taken any PPI provisions for the last three quarters, we have now provided for an additional £900m.

We will continue to review the provision utilisation and claim trends on a quarterly basis.

These are difficult issues, which we are committed to dealing with in the right way.

And our ability to absorb the impact of these legacy costs is a crucial part of our strategic approach.

I would like to conclude by sharing with you some of the continuing innovation for customers and clients I have seen across the business in the first half of the year, which I believe is at the heart of the on-going strengthening of the franchise:

In Personal and Corporate Banking in the UK, for example, we are trialling a new branch format in Asda supermarkets.

This means we can offer longer opening hours and better parking and our customers can do their banking when they do their shopping – aligning our business with the needs and lifestyles of our customers, not the other way round.

Barclaycard continues to lead innovation in payments.

We have just launched the bPay wrist band, allowing users to make contactless payments up to £20 at over 300,000 locations in the UK.

The bPay band is free, there are no usage charges for customers, and it can be linked to any UK debit or credit card account – truly opening up innovation to everyone.

Earlier this month our Investment Bank launched Barclays' Women in Leadership Exchange Traded Notes on the New York Stock Exchange's Arca Exchange.

These ETNs, which track the Barclays' Women in Leadership Total Return Index, give investors exposure to major US companies with a female Chief Executive and/or at least 25% female members on the Board of Directors – a powerful example of our commitment to innovation and diversity.

And in South Africa, we have rolled out over 1500 cash deposit devices across our branch network.

A third of all customer cash deposits are now occurring through these devices, not only alleviating pressure on branch queues and increasing customer choice, but also saving cost by removing manual processing in branches.

This is exactly what I mean by strategic cost reduction, improving customer service and cutting costs at the same time.

In the last 12 months alone, we have reduced the volume of simple transactions in branches by over 25%, saving R59m year to date.

So looking at today's results in the context of our ambitious plans to transform Barclays, I am pleased with the progress we are making – with the underlying performance of our business, with our resilience in the face of legacy issues, and with pace of change as we reshape our business around our customers and clients.

And now I'll ask Tushar to take us through the detail of the results.

Tushar Morzaria, Barclays Group Finance Director

Slide 6: Good Core performance with Non-Core reductions on track

Thanks Antony. So let's go to the detail.

I'd like to start by looking at a few measures you can use to gauge progress quarter by quarter towards our six Transform targets.

Our Core business performed well overall generating an RoE of 11% and a 13.5% return on tangible equity.

This clearly shows the fundamental strength of the Core franchise – right now.

On capital ratios, I'm pleased that, despite the PPI provision, our CET1 ratio has increased to 9.9%. That reflects the underlying ability of our businesses to generate capital and manage RWAs.

I expect that ratio to continue to improve toward a milestone of 10.5% next year and go above 11% in 2016.

Our PRA leverage ratio has also continued to improve, finishing H1 at 3.4% and with a reduction of £99bn in leverage exposure in the first two quarters of the year.

Now we've made encouraging early progress in Non-Core:

- RWAs are down by £22bn in the first half and average allocated equity reduced by £2bn;
- We brought PRA leverage exposure down by £85bn;
- And we reduced costs by 36% to £934million.

Slide 7: Summary Group financials

The next slide shows a summary of the Group financials before I go into more detail on the Core business and then Non-Core.

Group adjusted profit before tax was £3.3bn in H1, down 7%, and driven largely by a 12% reduction in income to £13.3bn, primarily in the Investment Bank.

Without headwinds from foreign exchange movements our Group adjusted profits including CTA would have been up 1% year on year.

Our statutory profit before tax is 49% higher than in H1 2013 at £2.5bn with corresponding attributable profit of £1.1bn, up from £0.7bn last year.

We continue to make good progress on reducing operating expenses and the total Group adjusted cost base fell by 9% to £8.9bn. This was driven by improvements across all businesses.

This cost reduction included Cost to achieve charges, which were £494m in the half.

Impairments improved by 33% to £1.1bn and after tax and minorities, including AT1 coupons, adjusted attributable profit was £1.8bn which produced an adjusted EPS of 10.9 pence.

The attributable loss for Barclays Non-Core was £464m down from £619m with the reduction in income more than offset by reductions in impairments and costs, all of which resulted in an RoE drag of 4.5%.

I'll come back to discuss BNC in more detail later.

The Group RoE was 6.5% and in the Core business we delivered an 11% return.

TNAV fell slightly in the first half as a result of negative net movements in reserves, particularly from FX while the impact of the PPI provision reduced the contribution from our underlying profitability.

Adjustments relate principally to the additional PPI provision of £900m, which gives us a total remaining provision of £1.3bn.

Antony has described the changing profile of our claims which now feature a higher proportion of older claims which are more expensive and typically initiated by CMCs.

Direct customer claims have in fact fallen by 69% since the peak in May 2012 and they're tracking in line with our assumptions.

We're closely monitoring all aspects of PPI claims activity to ensure our sensitivity analysis remains accurate.

Slide 8: Strengthening key financial metrics

I won't spend too long on this slide now but I continue to have a sharp focus on our balance sheet. Shown here are a number of key metrics which demonstrate the improving strength and quality of that balance sheet in terms of capital, leverage, liquidity and also our conservative risk profile.

Turning now to the Core business.

Slide 9: Core business performing well and as expected

The Core business performed well in the half and we generated an adjusted PBT of £3.8bn.

Although we saw steady improvements in impairment and operating expenses, this did not completely offset income weakness in some businesses.

We increased profits in PCB and Barclaycard by 23% and 24% respectively and Africa Banking profits were also up on a constant currency basis.

Investment Bank performance continues to be impacted by challenging trading conditions - especially in the Markets businesses - but its performance is broadly as we expected.

Headline adjusted PBT for the Core was just over £1bn for the half.

On costs the significant progress we made in Q1 continued in the second quarter and total operating expenses in H1 were down over 4% on last year.

Excluding CTA charges we reduced expenses by 7% year on year.

Impairment in our Core businesses improved by 13% that was driven by PCB and Africa, contributing to a Group Loan Loss Rate of 45 bps, down from 64 bps in 2013.

Core attributable profit was £2.2bn and that produced a Core EPS contribution of 13.8 pence.

Slide 10: Core customer assets and NIM growth driving NII

The next slide summarises the Core income numbers by business and they show a steady performance in PCB and Barclaycard.

These results have come from positive movements in our Net Interest Income, with increases in both Net Interest Margin and customer assets.

To ease comparability, we've moved in-line with many of our peers to calculate NIM as a percentage of average customer assets.

The NIM for PCB, Barclaycard and Africa Banking increased by 6 bps to 406 bps while average customer assets increased by 2% to £276bn.

So together, this led to an increase in Net Interest Income from these businesses of 3% to £5.6bn.

Slide 11: Core impairment reduced across all businesses

Our Core businesses are characterised by strong asset quality with impairment reducing by 13% to £937m, as charges fell across all businesses year on year.

We continue to see favourable credit risk metrics and we expect conditions to remain broadly stable in the near term. For the full year, I have seen the implied consensus impairment for the overall Group in H2, which I am broadly comfortable with.

Slide 12: Costs reduced across Core business

Turning now to Core cost. This is an area where I'm particularly pleased with our performance.

This is a critical aspect of Transform and, as Antony described earlier the significant cost reductions we're achieving are sustainable. They result from programs we completed last year where we simplified many of our processes and invested in new automation technology.

That drove Core costs down over 4%, across all businesses year on year and work is continuing, to drive further benefits next year.

As a reminder we do not adjust for Cost to achieve charges and in the first half we spent £494m across the Group of which £453m was in Core.

As you can see, we've broken out litigation and conduct charges within total operating expenses, to help you understand our underlying cost base more clearly

Slide 13: Personal and Corporate Banking – good progress in H1

Now I want to take you through each of our businesses in turn, starting with PCB. It's our largest business in terms of PBT with £1.5bn in the half.

In mortgages we continued to increase our share of stock, to just over 10%[1] by the end of June.

Users of our mobile banking and Pingit payments app broadly doubled year on year and we now have 3 million users of mobile banking and 1.7 million of Pingit.

PCB income increased slightly to £4.4bn and that was driven by savings and mortgages, but partially offset by lower fee income.

Impairment was down 23%, with higher releases and recoveries on corporate lending.

We reduced total operating costs by 6% which reflected headcount savings which more than offset the higher costs to achieve.

Footnote 1: Source: Bank of England lending statistics (May 2014) and Barclays estimates

So as a result, adjusted PBT increased 23% to £1.5bn and that drove an RoE of over 12% and return on tangible equity of just over 16%.

Slide 14: Barclaycard – growth across all businesses and geographies

Now Barclaycard.

We saw encouraging growth across all Barclaycard businesses and geographies and we increased income by 5% to £2.1bn even with some headwind from US dollar weakness.

Despite a larger portfolio, impairments were down 1%. and costs reduced 2%. That drove a 24% increase in PBT to £764m, and an RoE of 18.9%.

We grew our customer base among both consumers and businesses by 2.3m and 12,600 respectively.

Balances also grew, with total loans reaching £33.2bn, up 10% year on year.

Slide 15: Africa Banking – income growth and good credit performance

In our Africa Banking business, PBT was up by 13% on a constant Rand basis although the sterling results from Africa Banking were adversely affected by the significant Rand depreciation.

This improvement was driven by 8% income growth on a constant Rand basis with NII up 11%.

We saw a 9% reduction in credit impairment charges on a constant currency basis.

Costs went up in Africa in H1 with increased spend on key initiatives, in addition to higher staff costs, but this was outstripped by income growth.

RoE for Africa Banking was 9.6%, reflecting the goodwill we hold on the Group balance sheet. Return on tangible equity was 13.3%.

Slide 16: Investment Bank – early signs of progress

Finally let me turn to the Investment Bank.

As we indicated in May, this is a transitional year for the Investment Bank while we implement its strategic re-alignment which principally affects the Macro and Credit product lines within the Markets business.

The performance in the second quarter, when compared to Q2 2013, demonstrates that the origination-led strategy is on track with outperformance by our ECM, DCM and Advisory businesses.

You can see on this slide that Banking income was up 16% with ECM, DCM and Advisory up 35% to £661m. I think that highlights the growing strength of this business and we finished in the top 5 in the US in terms of total fees and number 2 in the UK.

We also had a record quarter in ECM, allied with our second best quarter in Equities, after Q2 2013.

Last week's announcement of BSkyB's acquisition of Fox's stakes in Sky Italia and Sky Deutschland demonstrates the momentum in our Banking businesses. – Barclays acted as Joint Financial Advisor, Corporate Broker and Sponsor to BskyB. We also acted as Joint Lead Arranger and Joint Bookrunner on the £6.6bn bridge and term loan facilities and as a Joint Bookrunner on the equity placing.

Turning to Markets income overall reduced 16% compared to the second quarter of 2013 with a 13% improvement in Credit offset by Macro and Equities, which was down against an even stronger quarter last year.

However, when FX is stripped out, Macro and Credit combined were down only 11%.

When we look at the IB's H1 performance income was lower by 18%, impacted by the Lehman gain in the prior year and currency moves.

This income performance, together with a 3% fall in operating expenses resulted in H1 PBT falling to just over £1bn.

RWAs in the IB were down over the first half of 2014 to £125bn, above the £120bn limit we have established, but heading in the right direction.

This is a transitional result of the re-positioning of the Investment Bank and it will reduce to within the target limit in subsequent quarters.

Slide 17: Barclays Non-Core – good start to RWA reductions

Our Non-Core unit reported declines in income, impairment and costs, as expected and that resulted in a decrease in attributable loss from £619m to £464m.

As you know, we expect operating losses to continue through our planning period to 2016.

However, managing the capital requirement of BNC is as important as managing the operating losses and I'm pleased to say that we've made good progress.

Since the start of the year we've reduced Non-Core RWAs by £22bn to £87bn mostly driven by sales and paydowns.

Average allocated equity for Non-Core reduced by £2bn to £14.5bn in the first half.

As a result of the reduced loss and lower allocated capital the drag on Group RoE was 4.5%, compared to 7.5% for H2 2013.

Leverage exposure in Non-Core was also reduced, with the PRA measure down to £315bn primarily driven by lower Potential Future Exposure on derivatives.

From today we will only be reporting our leverage exposure on a BCBS basis, which increased the Non-Core leverage exposure by around £70bn as you can see on this slide

But, overall BCBS ratio for the Group was 3.4%, in line with the PRA ratio.

Slide 18: Barclays Non-Core - income and cost on track

Non-Core income fell 55% compared to H1 2013 with a significant decline in Securities and Loans income principally as a result of a reduction in activities that we identified in 2013 as Non-Core.

Over the last six months, there were also further reductions across other Non-Core asset classes and securities.

Income in our Non-Core retail businesses reduced to £390m while non-retail business income also declined to £174m.

These income declines are within our expectations and were offset by other P&L improvements including the significant reduction in impairment.

Non-Core costs were down 36% to £934m with a significant reduction in CTA. Excluding CTA, costs reduced to £893m of the remaining cost base approximately half relate to retail operations.

Slide 19: Barclays Non-Core – encouraging progress on RWA reductions

As you've already heard this morning we've made encouraging early progress in reducing RWAs in BNC by over 20% to £87bn and we're on track to meet our £80bn guidance for the end of 2014.

Reductions were concentrated in Non-Core Securities, particularly non-agency RMBS, with repayment of leverage loan positions and further reductions on structured assets also reducing RWAs.

We've also split out the operational risk attached to our Non-Core exposure on this slide. As we run down these assets, we will work to reduce the operational risk as well.

As I've discussed with many of you already the market and credit risk of the majority of these assets is expected to run down relatively quickly.

But, we do anticipate some counterparty credit risk will remain in 2016.

Slide 20: Costs reduced across all businesses

The progress we've made on Group costs means we are on track to achieve the guidance we gave on May 8 of approximately £17bn for 2014, which assumes broadly stable FX and no large unexpected litigation or conduct items.

You can see in this table the savings we've made in our total Core cost base versus the same period in 2013, along with the CTA we have spent which will drive further savings.

Slide 21: Positive strengthening of capital and leverage ratios

Now coming back to the Group overall. We've made good progress on capital, despite the headwinds from the additional PPI provision.

CET1 increased to £40.8bn and we reduced RWAs by £31bn to £411bn with the reduction coming out of Non-Core and not affecting investment in our Core businesses.

As a result the Group's CET1 ratio improved to 9.9%.

PRA leverage exposure fell by £99bn to £1,266bn which gave a PRA leverage ratio of 3.4% as at 30 June.

We've made significant progress in derivatives, with the reduction in the total Potential Future Exposure measure, contributing to a £65 billion reduction in derivative Leverage Exposure.

We've also disclosed our estimate of the leverage ratio under the BCBS proposal.

On current interpretations of the proposals, this stands at 3.4% based on leverage exposure £87bn higher than the current PRA measure.

We'll be reporting on this basis from Q3 onwards.

Much of the increase in leverage exposure under the BCBS proposals is generated by assets which sit in BNC.

Slide 22: TNAV – underlying profit growth offset by FX impact and PPI

The next chart shows the drivers of the TNAV reduction to 279 pence over the past six months.

And, as you can see we made good underlying profits, which were offset by both PPI and FX moves.

In fact if the currency translation reserve had stayed at June 2013 levels, TNAV would be 18 pence higher than the 279 pence we are announcing today.

Slide 23: Good Core performance with Non-Core reductions on track

Antony has set out for you our progress against our six commitments for 2016.

So let me finish by highlighting the areas I'm particularly focussed on at this point in our work to transform Barclays:

I am encouraged by our Core business performance with returns in the double digits, both including and excluding CTA.

We have made a good start on our work to exit or run-off those parts of the business we've identified as Non-Core RWAs and leverage are both down and costs are coming out.

Capital and leverage ratios continue to make good progress.

And finally TNAV has fallen by 4 pence in the half, but as I have set out, this was mostly driven by FX.

These then are the details of our progress. I'll now hand back to Antony to conclude.

Antony Jenkins, Chief Executive Officer

Slide 24: Antony Jenkins conclusion

Thank you, Tushar.

So, we are making encouraging progress.

Our strategy is clear:

Our operating environment remains challenging, in economic, regulatory and legacy terms and so we must make our business more resilient.

And our strategy is working.

Barclays has changed a lot in the last two years, and in these results we can begin to see the impact of that change.

We have delivered on-target or better performance against every measure we have set out to track.

Of course there is still much more to do.

But we can now see the future of Barclays starting to emerge – simpler, stronger, more focused and more balanced – leading our sector in innovating for customers and clients.

I am very excited by the potential for that business and very confident in the plan we have set out to get there.

Thank you. We will now take your questions.

Antony Jenkins, Chief Executive Officer

Antony Jenkins closing remarks

Before we close, let me leave you with three thoughts:

First, on May 8, we set out a clear plan, with clear indicators to track progress. Today we are on target or better across all those indicators – we are executing the plan, and the plan is working.

Second, we are able to report this performance even with significant headwinds from PPI, showing the resilience we have baked into our plan.

Third, and most important, our Core business is performing well – simpler, stronger, more balanced and with exciting potential to generate returns and growth across the cycle.

Thank you very much for your time today.

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