Barclays PLC 2015 Interim Results

Analyst and Investor Conference Call Speech

Tushar Morzaria, Group Finance Director

Slide 4: Tushar Morzaria, Group Finance Director

Thanks John and good morning. So let me take you through the financial highlights from these results.

Slide 5: Continued good progress In H1

In the first 6 months of 2015, we’ve increased Group adjusted profit before tax by 11% to £3.7 billion and Core PBT improved 10% to £4.2 billion. All our Core operating businesses increased profits.

You’ll see that we achieved positive jaws at both the Group and Core level. Adjusted Core RoE was 11.1%, and this was 12% when you strip out Costs to Achieve. This is on an average equity base that was £6 billion higher at £47 billion. The IB delivered a strong performance with a double digit RoE for the half and above 11% for the second quarter.

We continued to make progress with the run-down of Barclays Non-Core. RWAs were down £18.7 billion since the start of the year and allocated equity reduced by £2.7 billion to £8.3 billion.

We’ve made further progress on resolving legacy issues in H1, while also improving our capital ratios. Despite the conduct provisions, we increased our fully loaded CET1 ratio to 11.1% and the leverage ratio reached 4.1%, exceeding our 2016 targets 18 months early.
We continued to implement our cost reduction programmes and reduced total operating expenses by 7%, and Core costs by 3%. Even after the substantial cost reductions we delivered in 2014, we anticipate further savings coming through in the remainder of 2015 to achieve our £16.3 billion guidance and that’s despite headwinds from the US dollar and the increase in the UK bank levy.

Now let me take you through our Summary Financials. I’ll begin with a quick overview of the H1 performance and then I’ll focus more on Q2 as I drill down into the Core businesses and Non-Core.

**Slide 6: Summary Group financials: H1 adjusted PBT up 11%**

The 11% increase in adjusted profit equates to a 25% increase in statutory profit before tax, after taking account of the adjusting items. Impairment improved by 10%, as we continued to manage risk carefully.

We brought the total adjusted cost base down to £8.3 billion, a 7% reduction. With income down 3% overall, as a result of the Non-Core rundown, this gave us positive jaws.

In addition to the adjusting items, I mentioned at Q1, in Q2 we made a further provision for UK customer redress of £850 million. Of that, £600 million was for PPI and £250 million was for Packaged Bank Accounts, partially offset by the gain of £496 million on the Lehman settlement. Own credit was £410 million positive in the half.

After tax and minorities, including AT1 coupons, we achieved an adjusted attributable profit of £2.2 billion. And we generated an adjusted EPS of 13.1 pence.

We’re paying a dividend of one pence again for the second quarter. As John has commented, we believe it is prudent to leave the dividend at 6.5 pence for 2015.
Now, I’d like to turn to capital and funding, where we made strong progress over the quarter in our capital ratios.

**Slide 7: Progressive strengthening of key financial metrics**

CET1 capital increased to £42 billion that was despite further conduct provisions. RWAs were down £19 billion in the quarter to £377 billion. And with our quarter-end CET1 ratio of 11.1% we’ve already reached our 2016 target, 18 months early. That’s 200 bps accretion since the start of last year.

While recent progress has been encouraging, I would not expect the journey to our end-state target to be linear quarter by quarter. We do expect some RWA headwinds in the second half and beyond, but we’ll aim to keep the CET1 ratio at around 11% through year-end.

Given we achieved our 2016 target ahead of schedule, we are not recalibrating this target, but we continue to target a higher end-state capital ratio based on a management buffer of around 150 bps above our regulatory minimum requirement. Using the current Pillar 2A that would translate to just over 12%.

Leverage exposure was reduced in the quarter by £116 billion, principally in Non-Core and the Leverage ratio reached 4.1%, again achieving our 2016 target ahead of time.

TNAV was down 9 pence from Q1 at 279 that’s because profits were more than offset by dividends and other reserve movements, notably currency translation and cash flow hedges. Also, remember that because of the timing of the final 2014 dividend on 2nd April, we had a 4.5 pence headwind from dividends in the second quarter.

Our liquidity position remains robust and our funding profile well diversified, with strong LCR and NSFR ratios.
Slide 8: Q2 Core performance: Positive jaws and PBT up 6%

In our Core businesses, we generated an adjusted PBT of £2.1 billion, up 6%, which produced a 9% improvement in attributable profit. We were able to deliver an RoE of 11.0% similar to last year, despite increasing allocated equity by £5 billion to £47 billion. Excluding CTA the RoE was 12.2%.

This profit improvement was driven by increased income and reduced operating expenses and that produced positive jaws. Total operating expenses for the Core were down 2% year on year to £3.9 billion, as we continued the good progress on costs. We remain focussed on further reductions in 2015 towards our 2016 Core target of £14.5 billion ex CTA.

Core impairment increased by 7% to £488 million, reflecting asset growth, and the loan loss rate was broadly stable at 45 bps. We do expect some increase in impairment charges in the second half from these very low levels, so I’d encourage you not simply to pro-rate the quarterly charge. The Core EPS contribution was 7.7 pence.

Now let me turn to Core income, which was up 2% year on year principally driven by growth in Barclaycard.

Slide 9: Core income – Growth in Q2 net interest income and margin

Income growth came from positive movement in our Net Interest Income, partially offset by a decline in fee income.

For PCB, Barclaycard and Africa, both average customer assets and Net Interest Margin increased, with NIM at 418 bps for the quarter and that was up 15 bps year on year. Average customer assets increased year on year by 4% to £289 billion and this was spread across the three businesses. Altogether, this meant we produced an increase in Net Interest Income from these businesses of 8%. While there are some competitive pressures on asset
margins, notably in UK mortgages, at this stage we expect the Core margin overall to remain broadly stable through 2015.

Now let me take you through the performance of the individual businesses and I’ll start with Personal and Corporate Banking.

Slide 10: PCB: PBT up 10% excluding impact of US wealth

PCB generated £709 million of PBT in the quarter. That was down 9% year on year. The lower profit was driven by a loss on sale of the US Wealth business, which we announced in the quarter, and Q2 customer redress related to that business, which altogether totalled £150 million. Excluding this impact, PBT for the quarter was up 10%, with income growth of 2% and costs down 3% another quarter of underlying positive jaws.

Income from Personal Banking was broadly stable at £1 billion. That was a result of mortgage margin pressure and lower fee income, largely offset by improved deposit income. Corporate income was up 9%, driven principally by continued growth in our cash management business.

NIM was 299 bps, up 6 bps year on year, as pressure on mortgage margins was more than offset by the switch from personal overdraft fees to interest charges and improved deposit margins.

Impairment was up slightly; that was due to loan growth, with a loan loss rate of just 18 bps, as the positive UK economic environment encouraged a continuation of the benign impairment trend.

Excluding the effects of the US Wealth disposal and customer redress, we reduced total operating costs by 3% resulting in a Q2 cost income ratio of 57% and we expect to continue to drive this down over the next few years.
Now, Barclaycard which continued to grow in Q2 delivering a record profit for the quarter and for the half.

**Slide 11: Barclaycard: Continued growth with PBT up 8%**

We increased income by 13% to £1.2 billion, driven by the US business. As you can see on this slide, US cards now account for around 35% of income and a similar proportion of the loan book.

Impairment increased 2% and loans and advances grew by 11% year on year. As a result the LLR decreased 26 bps to 283 bps but it’s likely to normalise to around 300 bps for the full year.

Costs increased 19%. That principally reflected business growth and there were also some one-off items, including certain marketing costs and a VAT refund in Q2 of last year. Excluding these one-offs, costs grew 8% year on year. As a result, PBT was up 8% to £429 million and with the growth in the business and in allocated equity, RoE was flat at just under 20%.

Now let me cover Africa Banking.

**Slide 12: Africa Banking: RoE increased to 9.7% and RoTE of 13.2%**

Currency moves had relatively little effect on the second quarter comparisons, with a 4% year on year move in the Rand so I’ll reference the reported figures.

PBT was broadly flat year on year at £245 million and RoE increased to 9.7% as attributable profit increased by 23%. Income increased 2% and that was driven by momentum in South African Retail and Business Banking. Cost growth was also 2%, reflecting inflationary pressures, partially offset by the benefits of strategic cost programmes.
Let me turn now to the Investment Bank.

**Slide 13: Investment Bank: PBT up 35% with double digit RoE**

Our Investment Bank had a strong Q2, with income consistent year on year and costs down by 14%. This resulted in a 35% increase in PBT. When combined with a reduction in RWAs and lower allocated equity we achieved an RoE of 11.5% for the quarter. That performance was in line with our returns focused strategy which allows for generating income utilising lower RWAs and a reduced cost base.

Of course, there are seasonal effects in the second half of every year, including the bank levy in Q4, and we still have further work to do as we continue to work on the cost base and optimise capital, as John mentioned in his introduction. But these figures are a clear indication of the progress we are making towards generating attractive, sustainable returns through improving the productivity of the business.

Looking more closely at income, Banking was down by 3% on a very strong quarter last year, notably in both debt and equity underwriting. Banking income was up 12% sequentially on our Q1 performance.

Our Banking team has been working on a number of high profile transactions in the quarter, including acting as advisor to CVS Health on two large acquisitions – where we are also providing the financing and, working across North America and Europe, acting as joint bookrunner on America Movil’s €3 billion exchangeable bond which was one of the largest ever for a corporate.

Turning now to Markets. Following significant repositioning of the business over the last year, our Macro business again performed well in Q2 with a 10% increase in income year on year, driven by rates and currency products. Credit income was consistent year on year and quarter over quarter at £272 million showing the strength of our flow credit business. Lastly, equities income was down slightly year on year. That reflected some lingering Dark
Pools impact, but at £616 million was in line with Q1, evidence of the resilience and continued strength across our franchise.

The Investment Bank reduced costs by 14% to £1.4 billion with lower performance costs CTA and conduct & litigation charges. Compensation costs were down year on year as a direct result of reductions in headcount and deferred compensation. By continuing our disciplined cost management, we achieved a cost income ratio of 64% for the quarter.

So turning now to Non-Core where we continued to run down RWAs and release equity.

Slide 14: Non-Core – Continued shrinkage and capital recycling

The Non-Core team made good progress in Q2, releasing £1.4 billion of equity, as we reduced RWAs by £8 billion to £57 billion. The attributable loss for the quarter was £203 million a similar level to Q1, with the Non-Core drag on Group RoE at 3.2%.

Income remained at broadly the same level as the last two quarters and down significantly versus the prior year period given the disposal of assets and businesses. The income generated from Businesses was largely offset by negative income for Securities & Loans and Derivatives.

Costs for Q2, excluding litigation and conduct charges and CTA, were down £207 million year on year at £234 million. That was a similar level to Q1. We’d expect further significant cost reductions to be driven by Business disposals and just to remind you the European retail businesses account for around 40% of the current Non-Core cost base.

Slide 15: Non-Core – Further RWA and leverage reductions

On this slide, we show the RWA and leverage reductions. You can see a further significant RWA reduction of £8 billion in Q2 and that followed the £10 billion reduction in Q1, which
included the sale of Spain. It was encouraging to see some reductions in Derivatives RWAs after a flat Q1, plus good progress in Securities & Loans. While there were no major Business disposals in Q2, we have a programme of asset reductions across all Non-Core portfolios over the remainder of the year.

Leverage exposure was reduced significantly in Q2 by £70 billion, to below our 2016 guidance. That was driven by reductions in reverse repo assets and further derivative optimisation. Perhaps most importantly, the Non-Core rundown released £1.4 billion of equity over the course of the quarter making £2.7 billion year to date.

John has mentioned that we are now guiding to around £20 billion RWAs for 2017, at which point we expect it will be re-integrated into the Core. This guidance replaces the £45 billion guidance for 2016. Over the next two years we will work hard to reduce the capital consumption and operating losses of Non-Core and to release as much of the £8.3 billion of equity that is currently allocated as possible.

The next slide shows we’ve made strong progress in reducing the structural cost base of the Group with a year on year reduction of 5% in H1 to reach £7.9 billion excluding CTA.

Slide 16: Group adjusted operating expenses – delivery to date

The reductions in the first half were across the IB and PCB as well as the significant reduction in Non-Core.

The Investment Bank has benefited from restructuring initiatives to right-size the business and there have been branch rationalisation programmes in PCB and Africa Banking plus the development of continued enhanced digital offerings to customers.

We reduced the cost income ratio for the Group from 66% in Q214 to 64% in Q215. We have faced currency headwinds, as the US Dollar strengthened by 9% compared to H1 last
year. This makes our cost targets more challenging to hit, but US Dollar strength is good for our results overall.

We remain committed to our cost guidance of £16.3 billion for this year and that’s despite currency moves to date and increase in the bank levy. We’re also on track to meet our £14.5 billion Core cost target for 2016. Of course, we have further work to do to achieve that, so I want to spend a couple of minutes on some of the measures we are taking to get there.

Slide 17: Path to achieving 2016 Core cost target

Our cost initiatives are spread across a number of categories restructuring and rightsizing, industrialisation and innovation. The first two are important elements in both the achievement of our 2016 target and improvements in our Group cost income ratio, which John mentioned in his introduction.

But here I want to also highlight a number of innovation initiatives which are not only beneficial to the customer experience, but also lower the Group’s cost base structurally.

The rollout of Barclays Mobile Banking continues to build momentum, with over 4 million Barclays Mobile Banking customers in 3 years since inception, and this is changing customer habits.

A Barclays customer uses mobile banking over 26 times a month while using a branch just twice. 15% of all new customer accounts are opened digitally by our customers, either remotely or using the digital capability in branch. We’ve seen continued growth in digital consumer lending origination and we have led the UK market in digital cheque imaging. Last summer we were the first UK bank to offer mobile cheque deposits to our customers through a pilot supported by Barclays Mobile Banking. One year on, we are offering 2 million Personal Banking customers this service of depositing cheques using their smartphone.
Slide 18: Q2 financial highlights

I started with the progress we have made across the first half of the year and within this, Q2 continued many of the Q1 trends, with increased Group profits and double digit RoE for the Core business. It was very encouraging that we improved the IB contribution to RoE in Q2 into double digits at 11.5%.

We made further progress on cost reduction, and on the Non-Core rundown releasing a further £1.4 billion of equity, and we continued the Group capital build where we reached an 11.1% CET1 ratio and 4.1% on leverage, 18 months ahead of schedule.

So overall, this is another quarter of steady progress and we have a strong platform on which to build. But as John has said there is much more to do.

Thank you and now John and I are happy to take your questions.
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