

Barclays PLC Q1 2015 Interim Management Statement**Analyst and Investor Conference Call Speech (transcript)****Tushar Morzaria, Barclays Group Finance Director****Slide 2: Tushar Morzaria, Barclays Group Finance Director**

Good morning.

Almost a year after Antony and I set out the new shape of Barclays, I'm pleased to report another quarter of good progress towards our objective – a balanced, focussed international bank, run for returns.

We've further strengthened Barclays' capital position and at the same time, we've cut costs, reduced the drag from our Non-Core and improved the performance of our Core businesses – the future of Barclays.

So let me take you through the highlights.

Slide 3: Q1 financial highlights

We've increased Group adjusted profit before tax by 9% to £1.8 billion, with Core PBT up 14% to £2.1 billion. You'll see that we achieved positive jaws at both the Group and also at the Core level.

We generated good income growth in our Core businesses in Q1. We improved income by 4% across PCB, Barclaycard and Africa helped by a 4 bps increase in margins to 414 bps. The Investment Bank also generated a 2% increase in income.



We reduced total operating expenses by 7% with a 2% reduction in Core costs. Even after the substantial cost reductions delivered in 2014, we still anticipate further cost savings coming through in 2015 to achieve our £16.3bn guidance, despite significant headwinds from the US dollar and a substantial increase in the UK bank levy.

Adjusted Core RoE increased to 10.9% and this was 11.6% when you strip out Costs to Achieve. This is also on an equity base that is £7bn higher at £47 billion.

We continued to make progress with the run-down of Barclays Non-Core. RWAs were down £10 billion during the quarter and allocated equity reduced to below £10 billion. Non-Core RWAs as a proportion of the Group decreased from 24% a year ago, to 16% this quarter.

Resolving outstanding conduct issues and avoiding new ones are important parts of our plan for Barclays. Antony was very clear at Full Year that we want to make significant progress in 2015. Reflecting developments with relevant authorities, we've taken additional provisions of £800 million in Q1, primarily relating to Foreign Exchange. Despite this provision, we increased our fully loaded CET1 ratio to 10.6%.

Now let me take you through our Summary Financials.

Slide 4: Summary Group financials – adjusted profits up 9%

Group adjusted profits before tax for the quarter were up 9%, while statutory profits before tax were down 26%, after taking account of the further conduct provisions and other adjusting items.

Impairment improved by 13% to £477 million, as we continued to manage risk carefully.

We reduced the total Group adjusted cost base by 7%, bringing it down to £4.1 billion, or £4 billion excluding CTA.



Compared to income, which was down 3% overall as a result of the Non-Core rundown, this again gives us positive jaws overall.

On adjusting items, I've already mentioned the additional provision of £800 million in Q1 which brings the total provision primarily related to FX to just over £2 billion. There was also an additional provision for PPI in Q1 of £150 million, bringing the total remaining provision to £943 million as at the end of March.

Offsetting these charges was a gain of £429 million, as the valuation of a component of Barclays pension liabilities was aligned to statutory provisions using the Consumer rather than Retail Price Index. Other adjustments that we've taken in the quarter are shown on the slide.

After tax and minorities, including AT1 coupons, adjusted attributable profit was £1.1 billion. And that generated an adjusted EPS of 6.5 pence. We're paying a Q1 dividend of one pence again.

Now, I'd like to turn to progress on capital and funding.

Slide 5: Strengthening key financial metrics

We continue to maintain a sharp focus on our balance sheet, and this slide shows further progress over the quarter in terms of capital.

CET1 capital increased to £41.8 billion, despite the conduct provisions taken in Q1. I think that shows once again the fundamental resilience of the business we are building. RWAs were down £6 billion at £396 billion, including completion of the sale of our Spanish business.

With our quarter end CET1 ratio of 10.6% we are well positioned to satisfy our end state target of around 12%. While its progress has been good, I would not expect that progress will always be linear quarter by quarter.



Leverage exposure increased slightly to £1.255 trillion, as a result of seasonal effects, but we maintained the Leverage ratio at 3.7%, which is close to our 2016 target of greater than 4%.

TNAV was up three pence versus the year end at 288 pence, even though the additional conduct provision constrained our TNAV build in the quarter.

Overall, our liquidity position remains robust and our funding profile well diversified.

We've made further progress this quarter in the transition towards a holding company capital and funding structure by raising £2 billion of senior unsecured debt at the holding company.

Now, let me turn to Core performance where our business is doing well.

Slide 6: Core business performing well – Positive jaws and PBT up 14%

We delivered a RoE in our Core businesses of 10.9%, up from 10.7% last year and that was despite increasing equity allocated to £47 billion. Our Core businesses generated an adjusted PBT of £2.1 billion. This was driven by improvements in impairments and operating expenses, with income higher by 2%.

Profits were up 14% in PCB, 23% in Africa and 37% in the IB. Barclaycard profits were down 1% as we invested in the growth of the business. We continued to make good progress on costs. Total operating expenses for the Core were down 2% and we remain focussed on further reductions in 2015 towards our 2016 Core target of £14.5 billion excluding CTA. Core attributable profit was £1.3 billion and that generated a Core EPS contribution of 7.7 pence.

All our businesses generated income growth in the quarter as the next slide shows.

Slide 7: Core Income – Growth in net interest income and margin

IB income was up 2% year on year. And outside the IB, income growth has come from positive movement in our Net Interest Income, as both Net Interest Margin and average customer assets increased.

NIM reached 414 bps for the quarter, up 4 bps. And that was despite some NIM dilution year on year in Barclaycard as we continued to grow and expand the geographic mix of the business. Barclaycard NIM was however up strongly on Q4. Average customer assets increased year on year by 5% to £289 billion and this was spread across PCB, Africa and Barclaycard. Altogether, this led to an increase in Net Interest Income from these businesses of 6%. While there are some competitive pressures on asset margins, notably in UK mortgages, at this stage we expect margins to remain broadly stable through 2015.

Our Core businesses are characterised by strong asset quality as we continue to grow without compromising on risk.

Slide 8: Continued strong asset quality

As you can see on this slide, Core impairment reduced by 7% to £448 million. This was driven by a significant further reduction in PCB, where we had lower default rates and charges in corporate, partially offset by increased impairment in Barclaycard as we continued to grow the business.

We continue to see stable credit risk metrics across our portfolios.

Slide 9: Core operating costs

We reduced Core costs by 2% year-on-year to £3.9 billion, driven by Transform savings. We experienced headwinds from US dollar strength, notably in the Investment Bank. Some of



our Transform savings were offset by increased costs of litigation and conduct and associated legal fees.

Now let me take you through the performance of the individual businesses, starting with Personal and Corporate Banking.

Slide 10: Personal & Corporate Banking – Profits up 14%

PCB is our largest division with PBT of £787 million, up 14% and the most allocated capital at just over £18 billion. We delivered an ROE of 12.9% and an ROTE of 17.1%. We saw modest asset growth in Q1, in both personal and corporate lending.

NII increased 5% to £1.6 billion, which was largely offset by reduced fee income, resulting in flat overall income. The NII growth was driven by corporate deposits and personal savings and an overall NIM of 302 bps, up 3 bps, despite some pressure on asset margins particularly in mortgages. Corporate income was up 3%, driven by our cash management business.

Impairment was down 41% with a loan loss rate of just 14 basis points, as the positive UK economic environment encouraged a continuation of the underlying impairment trend. We also saw lower default rates and charges in corporate. We reduced total operating costs by 3% and we will continue to drive down PCB's cost/income ratio over the next few years.

Now, Barclaycard which continued to grow in Q1.

Slide 11: Barclaycard – Income up 9% and RoE of nearly 17%

We increased income by 9% to £1.1 billion, driven by the US and our corporate business. Impairment increased 8% and loans and advances grew by 15%. As a result, the LLR decreased 20 bps to 305 bps. Costs increased 18% reflecting business growth.



We grew our customer base by 3.5m and increased payments processed by 22% to £72 billion. Although PBT was down slightly for this quarter compared to Q1 2014, the RoE reached 16.6%, that's an ROTE of 21% and I'm confident about the future prospects for the business.

Now let me cover Africa Banking.

Slide 12: Africa Banking – Profits up 23%

Currency moves had very little effect on the first quarter comparisons, so I will reference the reported figures.

We increased PBT by 23%. This was driven by 8% income growth and cost growth of 3%. The 8% income growth to £948 million included an increase of 6% in NII driven by higher average loans and advances in Corporate and Investment Banking and growth in customer deposits in Retail and Business Banking. Non-interest income increased 11% reflecting increased transactions in retail and business banking in South Africa and strong growth in CIB. Increased costs reflect inflation and investment in key growth and savings initiatives.

Despite the increased PBT, RoE was slightly down year on year at 10.8%, due to higher tax and an increase in equity. Return on average tangible equity, which excludes the goodwill we hold on the Group balance sheet, was 14.7%.

Let me turn now to the Investment Bank, which delivered a good overall performance in Q1 and is more indicative of what the franchise is capable of after our repositioning of last year.

Slide 13: Investment Bank – Profits up 37%

Investment Bank income increased 2% year-on-year while we also reduced costs by 9%. This resulted in a 37% increase in PBT, and while there is more to do particularly on our cost

base, we are seeing the positive impact of managing the IB for returns and we produced an ROE of just over 9% for the quarter.

Banking income increased 3% to £632 million as a stronger performance in debt and equity underwriting was offset by a decrease in advisory fees and lending income. In DCM we had a strong quarter and increased our share of the sector to 5.7%, up around 100 basis points from Full Year 2014. This included acting as a bookrunner on over 150 trades including the top 5 largest global deals. ECM fees were also higher, driven by growth in follow-on and equity-linked activity in the US.

Turning now to Markets. Over the past year, we have re-sized our Macro business and reduced headcount and capital significantly. Nevertheless, during the first quarter of 2015, Macro was able to capitalise on the improved market environment to deliver a revenue increase of 13% to £624 million, driven by rates and currencies. Credit income fell by 21% to £274 million as an encouraging flow trading performance particularly in EMEA was impacted by underperformance in distressed debt and securitised products. And lastly, equities income was up by 5% to £619 million, reflecting higher income across cash products and equity financing.

The Investment Bank reduced costs by 9% to £1.5 billion, as performance costs fell and restructuring delivered cost savings.

Turning now to Non-Core, where we continued to run down RWAs and release equity.

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

Income was significantly lower year-on-year as a result of the Non-Core rundown, but at broadly the same level as Q4. We have now disposed of many of the income generating assets and we do not expect material changes to income from the current level.

As well as progressing with the disposal programme, we continued to focus on reducing the cost base over time. Costs were down 49% year on year to £239 million. Impairment



reduced 57%, including the impact of the sale of Spain. The attributable loss increased by £28 million to £199 million, with the Non-Core drag on Group RoE at 3.3% for the quarter.

Slide 15: Barclays Non-Core – Income and cost development

I mentioned at our full year results that I believe Q4 is a better indicator of the likely future income run rate than the first three quarters of last year.

The main driver of the reduction in Q1 income compared to the final quarter of 2014 is the sale of the Spanish business and other legacy investment banking businesses, which reduced income by £106 million. This was largely offset by an improvement in Securities and Loans and Derivatives. Securities and loans negative income of £73 million reflected a fair value movement on the ESHLA portfolio in the quarter partly offset by the release of a litigation provision.

Overall, we expect quarterly income broadly to track Q4 and Q1 outturns for this year and that's consistent with our previous outlook.

Our Non-Core cost reduction compared to Q4 was also largely the result of recent business sales, both in retail and investment banking. We remain comfortable with the cost guidance we gave at our full year results, which would see 2015 underlying operating expenses in Non-Core broadly halving year on year with further reductions being driven by disposals as these are announced.

Slide 16: Barclays Non-Core – Further RWA reductions

Non-Core RWAs finished Q1 at £65 billion and that's on track for our 2016 target of £45 billion. Our balances of derivatives and securities and loans were broadly unchanged versus the year-end. But, we have a programme of asset reductions across all Non-Core portfolios over the remainder of the year.



Perhaps most importantly, the Non-Core rundown released a further £1.3 billion of equity over the course of the quarter.

Slide 17: 2016 Transform Targets

So in conclusion, I'm pleased to report another quarter of good progress.

Our CET1 and leverage ratios of 10.6% and 3.7% mean we are well positioned for our targets next year and for our end-state CET1 ratio of around 12%.

Our Core businesses achieved a credible ROE of 11.6% excluding CTA.

Our cost programme is delivering and we continue to make progress towards our targets despite significant currency headwinds and the impact of the higher UK bank levy.

Finally, the drag on Group returns from Non-Core has fallen to 3.3%.

So, overall our Group is stronger and better capitalised, our Core businesses are growing, our Non-Core is shrinking and our costs are down again. And while we have much to do, we continue to deliver against our strategy.

Thank you and I'm happy now to take questions.



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