

**Barclays PLC Q1 2018 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 first quarter earnings call.

2018 is the first year in the last five, where Barclays begins with a clean operating model.

**Slide 3: Double digit returns across both operating businesses**

Our strategy is focused on improving profitability, and increasing cash returns to our shareholders over time. And the performance we have reported today shows another quarter of successful execution against that strategy.

Excluding litigation expenses, our Transatlantic Wholesale and Consumer bank produced, in the first quarter, a group Return on Tangible Equity of 11%.

Within that print, both of our operating businesses delivered double digit returns, with Barclays UK at over 15%, and Barclays International at over 13%.

Barclays UK's underlying performance has been solid in this quarter.

We grew our mortgage book by nearly a billion pounds, and had a strong ISA season with flows up around 35% year on year.

Income is down, however, driven by non-repeating items, including a Visa gain recognised in the first quarter of '17, and a remediation charge which was booked in this quarter.

We chose to increase investment in our leading position as a digital bank, including in core technology enhancements and customer journey optimisation, as well as expenditure on branch closures.

While the asset side of the business in Q1 – in mortgages - is exposed to margin pressure, our NIM held up very well at 327 basis points. And our strong position in deposits should benefit us as interest rates rise.

We were delighted to be the first of our peers to successfully stand up our ring fenced bank on the 1st of April, some 9 months ahead of the regulatory deadline to do so. This was an enormous undertaking, effectively creating the largest de novo bank in this country's history, and the thousands of colleagues who made that a reality, deserve great credit.

Both businesses within Barclays International – Consumer Cards & Payments and the Corporate & Investment Bank - produced double digit Returns in the first quarter.

Specifically, the Corporate & Investment Bank had a Return on Tangible Equity of 13%, and this offset somewhat weakened profitability in the US Cards business in the quarter, which was a result of prior year one offs and planned increased marketing spend.

Within the CIB, our Markets business delivered a particularly strong performance, gaining market share for the second quarter running.

This performance in Markets is not just a product of market volatility.

It is also a result of:

- the new management now in place;
- the technology investments that we are making;
- and the operating leverage that we have driven, now evident in two consecutive quarters.

Those improved returns are also in large part due to the success of our redeployment of low returning Corporate Lending Risk Weighted Assets to better returning clients and products.

In the second half of last year we have reallocated some £10bn of Risk Weighted Assets from parts of the Corporate Loan Book - where it was earning single digit Returns - to our Markets business, across Credit, Macro, and Equity Financing.

All of these businesses in Markets produced returns comfortably above our cost of capital.

#### **Slide 4: Diversified Transatlantic Consumer and Wholesale Bank**

In aggregate then, the story of this quarter is one which clearly demonstrates both the powerful earnings potential of the Bank post restructuring, and the benefits of the diversified model we have built. It shows that momentum is building, and reinforces our confidence in meeting our Group RoTE targets of greater than 9% in 2019, and greater than 10% in 2020, based on a CET1 ratio of around 13%, and excluding litigation and conduct.

Of course the first quarter is seasonally strong, but I am encouraged that we are seeing progress in the areas which will bridge the gap to sustainably deliver those targets in '19 and '20.

As I have said before, half of the improvement on our Full Year 2017 performance to reach our 2019 target will come from cost reductions, a decrease in legacy Non-Core drag, and better balance sheet efficiencies, as funding costs improve as we retire expensive legacy debt.

The other half is expected to come from additional top line growth – spread roughly evenly between our consumer and wholesale businesses.

On the consumer side, we expect US cards to continue to do well.

JetBlue customer balances have more than doubled in size in the two years since we acquired that portfolio, and our American Airlines partnership balances also continue to grow well. Initial take up of the Uber card since its November launch is encouraging.

Over the next few years, we are projecting annual growth in total receivables of around 10% across co-brand and our own brand cards in the US, and we are investing in the business to capture that opportunity.

Barclays UK will also target growth organically, and particularly in mortgages, though we will remain focused on driving attractive returns rather than chasing market share.

We will continue to enhance our leading position in digital banking to further enhance Returns. And you will have seen that yesterday we announced a groundbreaking partnership with PayPal, both here and in the US, which will see their technology integrated with our award winning mobile banking app and other digital assets.

Finally, modest improvement in our wholesale business is expected to be the last piece of the puzzle.

We now have the leadership in place and technology investment underway to drive performance in our Corporate and Investment Bank, and we are re-allocating capital and balance sheet more productively.

This has self-evidently been a good quarter for the Investment Bank, and what is important now is to ensure the sustainability of the improvement we're seeing, and we're confident that we can.

Reinforcing all of this, we are also benefitting from two significant tailwinds: a higher interest rate environment, and US corporate tax cuts.

As I said, we have a clear path in our mind for how we get to our RoTE targets, and this quarter represents a positive step down that path.

Another very significant piece of progress in the quarter was the agreement we reached with the US Department of Justice (DoJ) to resolve issues related to the sale of Residential Mortgage Backed Securities (RMBS) between 2005 and 2007. While the penalty was substantial, this settlement represents a major milestone for Barclays, putting a huge matter behind us which has hung over the bank for years.

The fine we paid, together with the PPI provision, did impact Capital by some 60 basis points, and – combined with seasonally higher Risk Weighted Assets – this means that we have printed a CET1 Ratio of 12.7% for the quarter.

However given the earnings power of the Group, and our strong track record in capital management, we are confident that we can be back at around 13% in good time.

Crucially, it remains our intention to pay a dividend for 2018 of 6.5p, and we look forward to returning an increasing amount of capital to shareholders, both through the annual dividend, and via other means, such as stock buybacks.



It's been a challenging few years for Barclays.

We have had to actively make some difficult choices, and engage in some formidable restructuring.

Through Non-Core we eliminated some £95 billion of Risk Weighted Assets - mostly in the Investment Bank - disposed of more than 20 businesses, and exited operations in a dozen countries.

And we have reduced costs since 2013 by some £6 billion.

Today we have a portfolio of diversified, profitable businesses, a clean operating model, a good capital position, and we have eliminated most of our major historic litigation issues.

Barclays UK and Barclays International have both produced attractive double digit returns, and – excluding litigation and conduct – this has actually been the highest quarterly RoTE for Barclays in 4 years.

I am therefore feeling positive about where we are today, and for our prospects of continuing to execute successfully on the strategy we set out in March of 2016.

Now let me pass to Tushar to take you through today's results.

#### **Slide 5: Tushar Morzaria, Barclays Group Finance Director**

Thanks, Jes.

Our Q1 results represented a major step towards achieving our objective of double digit returns for the Group, as we reported a 11.0% Group RoTE, excluding litigation & conduct.

Importantly, during the quarter, we resolved a very significant outstanding conduct matter, the DoJ RMBS investigation.

This resulted in a provision of £1.4bn in the Q1 results, and we also took a further provision for PPI of £400m, taking the remaining provision to £1.7bn.

In order to help you better understand the trends, we've included a slide in the appendix with these material items and other items of interest, which I'll reference as I go through the results.

In income there's some negative effect from non-recurrence of the one-offs of £290m highlighted in Q1 last year, mostly in BI while in costs we have a reduction of around £50m in SRP spend, and a small positive effect from the compensation changes introduced in late 2016.

#### **Slide 6: Q118 Group highlights**

The statutory attributable loss for the quarter included litigation and conduct provisions totalling £2bn, which are largely non-tax deductible. So the attributable profit excluding these was £1.2bn, generating earnings per share of 7.1 pence.

The RoTE was in double digits for BI, and also for BUK excluding litigation and conduct, and I would note that the CIB reported a 13.0% RoTE.

Despite the Head Office drag, overall Group returns were also in double digits, excluding conduct. Q1 does tend to be seasonally strong, but the benefits of our diversification are showing through in the Group returns.

Income was down 8% overall, principally reflecting the non-recurrence of those one-offs in Q1 last year, and the effect of the weaker dollar.

Impairment was down 45%, reflecting single name recoveries in corporate lending and the effect of improved consensus economic forecasts, principally in the US, but we see underlying credit conditions as broadly stable.

Costs, excluding conduct, were down 6%, largely reflecting reduced costs from former Non-Core and the currency effect. More importantly, we have continued to drive cost efficiencies creating capacity for reinvestment.

The Group cost income ratio excluding conduct was 63%.

The role of the ServCo, which we have named Barclays Execution Services or BX, is critical in driving these efficiencies.

The key step in our ring-fencing was completed on 1 April with the transfer of assets and liabilities into Barclays Bank UK plc.

PBT, excluding conduct, was up 1%, despite the currency headwind.

The effective tax rate reflected the reduction in US rates implemented at the start of this year, and in addition the Group return benefited from a couple of small one-offs mainly in Head Office, but we are still guiding to a mid-20's ETR for the year overall.

At the end of 2017 we reached a CET1 ratio of 13.3%, and said that we intended to maintain the ratio above 13%, pending resolution of key outstanding conduct issues.

The resolution of RMBS has now taken the ratio to below 13% temporarily, but we remain confident in our capital generation, and intend to pay a 6.5p dividend for 2018, subject to regulatory approval, as we focus on increasing capital returns to shareholders over time.

Looking at the individual businesses now, starting with Barclays UK.

## Slide 7: Q1 18 Barclays UK results

BUK reported a RoTE, excluding conduct, of 15.7% for Q1.

Income decreased 3%, reflecting two one-offs: non-recurrence of £24m of the Visa gain from last year, and remediation charges. Excluding these, income was broadly flat.

NIM for the quarter was 327 bps, down year on year due to the inclusion of the ESHLA loans, but only slightly down on Q3 and Q4, and within our guidance range.

We continued to exercise pricing discipline, while growing our mortgage book, adding close to £1bn of net balances at margins which still earn an attractive RoTE, adding to the £3.4bn in the second half of last year.

This growth is not just about pricing, nor a shift in risk appetite. We continue to focus on our key processes, such as our “time to offer” for residential mortgages, which now averages 10 days across all channels (with significantly lower figures for non-broker mortgages).

Our guidance for FY NIM remains in the 320’s, and where we land within that range will depend on whether we see further rate rises before the back end of the year, as well as the competitive environment.

Digital engagement among our customers continues to hit record levels, with over 10 million digitally active customers, up 6% year on year, and around 15% growth in active users of Mobile Banking, and we’re very excited about the PayPal deal which Jes mentioned.

Impairment increased by £23m. This included a single name in business banking, but we view underlying credit metrics as broadly stable, for example in cards 30 and 90 day delinquencies were flat year on year at 2.0% and 0.9%.

We continued to spend on the implementation of the UK ring-fence, but that will drop off following the launch of the ring-fenced bank on 1 April.

We remain focused on cost efficiency, allowing reinvestment in areas critical to the evolution of the business, notably cyber-resilience and digital.

Overall costs, excluding conduct, were up 5% yoy, resulting in a cost income ratio of 56%.

But our aim remains to take the BUK Cost:Income ratio to below 50% over time, as ring-fencing costs drop away and further cost efficiencies, including our ongoing investment in digital, come through.

Overall BUK continues to have strong market positions across most products and we are able to exercise pricing discipline and prudent risk appetite, while still delivering attractive returns.

Turning now to Barclays International.

### **Slide 8: Q1 18 Barclays International results**

BI delivered a Q1 RoTE of 13.6%, excluding conduct, with both CIB and CCP contributing double digit returns.

With around half of BI business being US dollar denominated, the 12% year on year decline in the dollar was a significant headwind to profits and income, and a tailwind to costs and impairment. I won't keep repeating this, but please bear it in mind.

Income adjusted for the non-recurrence of one-off gains which benefitted Q1 last year, was down 2%. Excluding the FX headwind, income was up 5%.

Impairment decreased significantly with write-backs, and improved economic forecast principally in the US, while costs were down by 6%.

The PBT increase of 4% was a good performance given the FX headwind.

Looking now in more detail at the BI businesses.

### **Slide 9: Q1 18 Barclays International: Corporate & Investment Bank results**

The CIB delivered a RoTE of 13.0%. Although Q1 is typically a seasonally strong quarter, this was a very encouraging performance.

Total income for CIB was up 1% to £2.8bn, with Markets the standout performer.

The Markets income benefitted by just £30m from the legacy funding costs now reported in Head Office, and even allowing for this we achieved solid income growth in sterling, despite the dollar headwind.

I'll reference the dollar comparisons for each of the business lines, for ease of comparison with US peers.

Markets income in US dollars was up 21%. This reflected a very strong performance in Equities, up 43% on Q1 17, and good performance in FICC, which was up 10%.

As we flagged at full year, we've combined Credit and Macro to give a FICC number, in line with peers.

Equities improved performance significantly, in equity flow derivatives and equity financing in particular, where additional leverage capacity was used productively.

Within FICC, FX performed particularly well. Rates and Credit experienced lower client activity, but we were able to improve revenue share in a number of areas, as I've mentioned.

Fixed income financing continues to be fiercely competitive, but our franchise is developing well, building on our Top 3 global ranking for FY17, and returns remain attractive.

Although the Banking performance reflects the lower levels of issuance year on year, we gained global fee share in Q1 compared to Q4 to reach 4.5%, and reported our second highest quarter for Banking fee income in sterling.

Corporate lending income was down, as lending balances reduced, reflecting the reallocation of RWAs within CIB, while Transaction Banking was slightly up.

Impairment was a net release of £159m compared to a charge of £51m last year. Just under half reflected a number of single name write-backs, and the rest was largely the result of improvement in economic forecasts, principally for the US, which informed our IFRS9 impairment. Absent further improvement in economic forecasts, I wouldn't necessarily expect those factors to repeat.

Costs were down 8%, principally reflecting the FX tailwind, reduction in SRP costs, and the reduced effect of the change on deferred compensation we introduced at the end of 2016.

We continue to create capacity to invest in the business in targeted areas, and with the reallocation of RWAs from the corporate loan book into higher returning areas.

Of course the RoTE of 13% benefited from the net release of £159m in the impairment line, but the RoTE would still be in double digits without this.

Moving on to CCP.

#### **Slide 10: Q118 Barclays International: Consumer, Cards & Payments results**

Net receivables in US cards grew by 10% year on year in dollar terms.

The American Airlines and JetBlue portfolios in particular have been growing well over the last few quarters, and we have renewed a number of partnership agreements over the last year, so that around 70% of the partnership book is covered by agreements that last through 2022.

The usual seasonal dip in Q1 masks the continuing underlying growth.

The income decline was 7%, excluding non-recurrence of the £266m of one-off gains last year. This reflects the currency headwind, and the effect on income of the disposal of a sub-prime portfolio in Q1 last year. Excluding these factors, income grew 6% year on year.

We saw 10% increase in the volumes of payments processed in the Merchant Acquiring business, and secured a major contract with HMRC, which is expected to bring in significant volumes in the future.

The impairment charge is down 15% reflecting the improvement in economic forecasts, mainly in the US, offset by balance growth and a modest increase in delinquencies. Despite this increase, we are comfortable with our risk mix, and particularly following last year's repositioning towards lower risk balances.

Costs increased by 4% principally reflecting business growth and investment, partly offset by currency tailwinds, and RoTE for the quarter was 15.6%.

Turning now to Head Office.

### **Slide 11: Head Office**

The Head Office result continues to be influenced by lumpy items, some of which are hard to predict, but are not significant for our long-term profitability.

We mentioned at FY that we would reflect some of the cost of legacy capital instruments in Head Office. This accounts for around £90m of the negative income in Q1, and this will continue while these instruments remain outstanding. There is also a technical charge from hedge accounting. This should come out in the range of £100 to £200m a year, but only for the next couple of years.

There are other treasury items that are unpredictable quarter by quarter, but in summary I would expect negative income in the remaining quarters of the year, but not at the level we have seen in Q1, and a reduction over time as legacy instruments are redeemed, and hedges unwind.

Costs in Head Office excluding litigation and conduct were £59m.

Although the attributable loss of £192m, excluding conduct, is a drag on Group returns, the level of equity allocated to Head Office has been reduced significantly to £3.0bn at the end of the quarter, as we are now allocating to the businesses based on a 13% CET1 ratio. It will remain a drag, but should be lower than in this quarter – and of course it is the overall Group returns that are our primary focus.

#### **Slide 12: IFRS 9 and impairment**

Next, I want to make a few comments on impairment, and the effect of IFRS9 in particular. We knew in advance that, because of the way IFRS9 works, we would see some volatility in impairment charges, particularly as consensus economic forecasts change.

While we have had little change in the UK forecasts, we have had improvements in other regions, notably for the US, affecting our international cards and CIB businesses.

It will take a number of reporting periods to illustrate how these sensitivities and other aspects of IFRS9 feed through, but we will try to help the market by giving a qualitative commentary.

The overall impairment charge was down by £239m. This is despite steady underlying delinquency performance across most portfolios.

The BUK charge was up 13%, partly due to a single name charge. Delinquencies were roughly stable and there were no material changes in consensus forecasts.

As I mentioned, the CIB reported a net impairment release of £159m compared to a charge of £51m in Q1 17. This reflected some significant single name write-backs, which we would not necessarily expect to repeat. There was also the effect of improvements in economic forecasts, notably in the US.

Absent further changes in economic forecasts, we would expect CIB to return to modest levels of impairment driven by single name charges, or recoveries.

In CCP there was also some benefit from improved forecasts. This outweighed the effect of some underlying deterioration in delinquency trends, and we are feeling comfortable with our risk mix in the US cards book.

So while I'm not going to guide on the overall impairment charge, we would expect some of the one-off benefits reflected in Q1 to drop out. Absent clear improvement in economic forecasts, we wouldn't expect impairment build through the rest of the year to be at the Q1 run rate. If the forecasts deteriorate, of course, IFRS9 is designed to pick up such deterioration earlier than previous accounting.

### **Slide 13: Operating cost focus underpinning RoTE targets**

Before I finish with capital, I just want to add a few words on our cost trajectory.

I've shown on this slide the 6% reduction in our Q1 cost base, excluding litigation and conduct.

Cost efficiencies are providing the capacity to invest in growth areas and you can see that clearly in CCP in particular.

We continue to guide to 2019 costs, excluding litigation and conduct, in the range £13.6 – 13.9 bn, which is expected to deliver a Group cost:income ratio of below 60%. We haven't given guidance for 2018, but would clearly expect a level below the 2017 out-turn.

Moving on to our capital position.

#### **Slide 14: Strong profit generation offset by RMBS settlement and PPI**

During Q1 we reached settlement with the DoJ on RMBS, which resolved the major uncertainty overhanging our capital position.

We also made a further £400m provision for PPI.

So this quarter litigation and conduct in total took 61 bps off our CET1 ratio, more than offsetting our capital ratio generation of 42 bps from profits, pre-dividends.

We also increased RWAs by £4.9bn in the quarter, and saw a 10bps headwind from the share awards that occur annually in the first quarter.

As a result the CET1 ratio reduced from 13.3% to 12.7%.

This is below our end-state target of around 13% but given our capital generation from profits, we expect to return the capital ratio to around 13% over time.

We remain comfortable that our capital flight path from here will satisfy our regulatory requirements, and generate capacity for attractive returns to shareholders.

We've re-iterated our intention to increase the 2018 dividend to 6.5p, subject to the usual regulatory approvals, and stress test outcomes.

Our spot UK leverage ratio ended the quarter at 4.8%, well above our required level.

Finally a quick word on TNAV.

#### **Slide 15: Tangible Net Asset Value**

Of course the RMBS settlement and PPI provision reduced TNAV in the quarter. TNAV was also reduced by the full initial effect of IFRS9 of 13 pence, as we flagged at full year, and the reduction in the cashflow hedge reserve, which is excluded from CET1.

The currency translation reserve also decreased, but we hedge our capital ratio for currency moves.

So we have seen a more significant TNAV reduction in Q1 than in capital.

However with these issues, and the major restructuring of the Group, behind us, we can now focus on accreting TNAV through our profit generation, net of the return of excess capital to shareholders over time, and I would stress that we expect to achieve our returns targets on a TNAV level that's clearly higher than today's level.

#### **Slide 16: Focused on profitability and returning capital to shareholders**

So, to re-cap

We reported a 11.0% RoTE for the Group, excluding conduct and litigation, with both BUK and BI contributing returns well above 10%.

Although Q1 is seasonally strong, this puts us in a good position to deliver on our 2019 and 2020 RoTE targets of greater than 9% and 10% respectively, based on a CET1 ratio of 13%.

We reached a settlement with the DoJ on RMBS, removing a significant uncertainty that was overhanging the Group.

Despite the capital ratio moving temporarily below 13%, we are confident that the outlook for our capital flightpath will allow us to satisfy our capital requirements and deliver attractive returns of capital to shareholders over time.

We have reiterated our intention to pay a dividend of 6.5p for 2018, subject to the usual approvals.

Thank you. Now we're happy to answer your questions.

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