

**Barclays PLC Q1 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.

My opening comments will be short today; given it was a straightforward quarter.

Today we have announced that Barclays earned £1bn of attributable profit in the first three months of 2019. We earned 6.3 pence per share.

Profit before tax was £1.5bn pounds, with positive jaws driven by a 3% reduction in costs, versus a 2% reduction in revenues.

Our Group cost to income ratio was 62%, a modest improvement over last year and we will continue to target a ratio of 60% or better over time.

From a revenue perspective, BUK produced another solid quarter. Within the CIB, investment banking fees were weak. But, for the sixth consecutive quarter we outperformed our US peers on average in the Markets business, which, like Q1 last year, generated a double-digit Return on Tangible Equity.

Turning to Capital, our CET1 ratio was 13%, with Group Risk Weighted Assets broadly flat year on year - though we did have the typical seasonal increase in the first quarter versus Q4 of 2018, which is what we expected.

Within that total, there were actually significant increases in the Risk Weighted Assets allocated to our Consumer franchises versus Q1 of 2018 - both in Barclays UK and in international Cards & Payments – while the Risk Weighted Assets allocated to our CIB declined year on year.

The positive effect of that change in mix may be seen most clearly in our international Cards & Payments business where a circa 20% increase in capital allocation year on year contributed to an increase in profitability of over 20%, whilst delivering a Return on Tangible Equity of 15.4%.

Our Tangible Net Asset Value was 266p, which represents the fourth quarter in a row where we have grown Barclays' book value.

Our total operating expenses in the first quarter were £3.3bn pounds.

In 2016 we took a charge of just under £400m pounds to allow us to better align variable compensation accruals with the firm's revenues. What you see in the first quarter is Barclays using this discretion around variable compensation to manage our costs and help deliver expected profitability.

And I would add, if we have continued weakness in our revenues, like we saw in the first quarter in the Investment Bank's fee income, we will seek to further manage costs.

Now let me turn to the leadership changes I announced earlier this month.

The reorganisation had two goals. First, to put under Ashok Vaswani oversight of the execution of plans in our global consumer banking and payments businesses. As technology sweeps the financial industry, particularly in payments, we need to

harness the unique platform that we have at Barclays. The payments space may be the biggest opportunity and challenge the bank will face over the next decade.

It is also great to have Matt Hammerstein, representing Barclays UK, join the Executive Committee, reporting directly to me.

The second goal was to have a more granular execution focus and oversight on the businesses within the Corporate & Investment Bank, and accordingly to bring the CIB closer to me as the Group CEO. So I welcome Alistair Currie, Stephen Dainton, and Joe McGrath to the Group Executive Committee.

This portfolio of businesses in our Trans-Atlantic consumer and wholesale bank gives us the best opportunity to put the recent past of Barclays behind us, and simply execute towards the Returns that our shareholders expect.

That said, let me be clear that management is very aware of the execution challenges we must still meet in order to deliver acceptable Returns on a consistent basis, particularly in the Corporate & Investment Bank.

We are confident however that this management team can meet the challenge, given the enormity of what we faced three years ago.

Barclays then was without strategic direction; the operational and control issues were acute; the bank was under-capitalised; and only occasionally profitable; and we faced enormous litigation and conduct issues. All of which we have addressed.

A 9.6% Return on Tangible Equity in the first quarter of this year is a good step towards our objective of delivering greater than 9% in 2019.

Now let me hand over to Tushar to walk you through the numbers in detail.

### Slide 3: Tushar Morzaria, Barclays Group Finance Director

Thanks, Jes.

I'll begin with the Group results, and then give some brief comments on each business.

### Slide 4: Q119 Group highlights

As Jes mentioned, profit before tax was £1.5bn compared to a statutory loss of £0.2bn last year. I'm pleased to note that litigation and conduct was not material in this quarter, but it was £2bn last year so the profit excluding this decreased 10%.

I will exclude litigation and conduct charges in my commentary as usual.

Group RoTE was 9.6%, with a double-digit return in both BUK and BI.

Income was down 2%, but we reduced costs by 3%, delivering positive jaws.

The income environment has been challenging in Q1, particularly for the CIB. Regardless of conditions, cost control will remain a critical focus throughout the year, as we pursue our 2019 RoTE target of greater than 9%.

Impairment was up £160m year on year, but down £195m on the Q4 impairment figure which included the specific charge of £150m to reflect economic uncertainty in the UK.

Importantly delinquencies remain stable. We can't predict macro-economic changes with precision, but the credit environment remains benign.

The effective tax rate was a little under 17%, and attributable profit was £1bn.

TNAV of 266p was up 4p in the quarter, driven by earnings per share of 6.3p, despite currency and pensions headwinds, and TNAV is up 15p across the last four quarters.

The CET1 ratio is in line with our target of around 13%, down slightly on year end, reflecting the seasonal increase in RWAs.

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

#### **Slide 5: Q1 19 Barclays UK**

BUK reported a RoTE of 16.4% for Q1, up slightly from 15.7%, on an increased equity allocation.

Both income and costs were broadly stable.

Overall income was down seasonally on Q4, with NII reflecting Q1's lower day count.

Year-on-year growth in deposit balances and mortgages was offset by continued NIM erosion, reflecting both product mix and competitive pressures.

We mentioned that in Q4 we had pulled back from some of the more aggressively-priced product categories. This affected our completions in Q4 and Q1, with net mortgage additions of just £0.6bn in Q4, and £0.3bn in Q1. However, mortgage pricing has improved slightly in Q1, and we are handling application volumes at significantly higher levels than in Q4.

Our increased focus on secured lending continues to have a mix effect, with NIM of 318bps in Q1, down from 320bps in Q4, and I expect slight downward pressure to continue.

However, we expect volume growth to contribute a higher income run rate in the remaining quarters of the year.

Costs reflected our continued investment in the digital transformation of the business.

I mentioned at full year that we expected the 2019 investment spend to be weighted towards the first half of the year, and we would expect negative jaws in Q2, but positive jaws in the second half and for the year as a whole.

Impairment was just under the £200m run rate we've referenced in the past, and delinquencies are stable.

Turning now to Barclays International.

### **Slide 6: Q1 19 Barclays International**

BI delivered a RoTE of 10.6% for the quarter on income of £3.6bn.

The main drivers of the year-on-year decline were a decrease of 6% in income, reflecting the challenging income environment faced by the CIB, and an increase of £152m in impairment due largely to the non-recurrence of the favourable macro forecast updates in Q1 last year.

Looking now in more detail at CIB.

### **Slide 7: Q1 19 Barclays International: Corporate & Investment Bank**

Overall income was down 11%, and we reduced costs by 9%, as we cut compensation accruals, reflecting the income environment, and continued to implement cost efficiency programmes.

Within the income decline, we saw a resilient performance particularly from the FICC businesses. Markets overall was down 6% in sterling, or 12% in dollars, but FICC was up 4%, comparing favourably with US peers, driven principally by Rates which delivered significantly improved performance. This reflects previous management changes and investment in technology, and as usual the FICC performance reflected CVA and DVA, both of which were headwinds year-on-year.

Equities was down 21% year-on-year, with weakness in derivatives, in common with US peers.

Banking decreased 17% year-on-year, with fees down particularly in acquisition financing.

However, our market share of global banking fees, based on Dealogic data, was up slightly on FY2018. So the Banking franchise remains in good shape, with a strong pipeline, and as we've said in previous quarters the timing of fees can be lumpy.

The Corporate income line was down 13% reflecting steady performance in transaction banking, but a decline in corporate lending income, due to both the reduction in lending in 2018, and a significant negative mark to market on hedges in Q1.

The underlying corporate lending income for the quarter was around £200m, which excludes the mark to market, but the figure does include the running costs of credit protection.

The mark to market losses on hedges were high due to our policy of taking a conservative approach to hedging exposure particularly in leveraged finance, and credit spread tightening and other market moves through Q1.

The negative Other income line, which included the CIB share of the net Treasury result in Q4 and in prior quarters, is now allocated out to the other business lines.

There was an impairment charge of £52m, compared to a net release of £159m, with no recurrence of the favourable macro-economic forecast updates we saw last year.

RWAs increased by £5.7bn from the seasonally lower year end level, but allocated tangible equity was slightly down year on year, with RWAs reduced by more than £4bn over the same period.

The RoTE was 9.5% excluding litigation and conduct, or 9.3% on a statutory basis.

Whatever the income environment through this year, we will remain very focused on cost control and you can see the Q1 number as a statement of intent in this regard.

Turning now to Consumer Cards & Payments,

### **Slide 8: Q1 19 Barclays International: Consumer, Cards & Payments**

We continue to generate attractive returns in CCP, while growing the business. RoTE was 15.4%, on an increased equity allocation, as income grew 6% driven by US cards.

Currency was favourable, with a 6% year-on-year sterling:dollar move, but we also grew the US cards receivables by 6% in dollars, adjusting for the LL Bean portfolio, which we sold in Q2 last year.

As we highlighted at FY, a share of the BI net treasury result is reflected in the income line. This was a smaller negative than Q4, but still a headwind year on year.

Again the airline portfolios, notably JetBlue and American, saw double digit growth.

The balance decline from Q4 was in line with normal Q1 seasonality.

Costs increased as we continued to invest in the growth of the international cards and payments businesses.

Impairment was down £59m yoy at £193m, and well down on the seasonally high Q4 level of £319m. Absent significant macro-economic developments, we would expect Q4 to be the seasonally highest quarter for impairment this year, with Q1 the lowest.

Turning now to Head Office.

### Slide 9: Head Office

Head Office was relatively simple this quarter, with negative income of £95m reflecting the excess legacy funding costs we put through Head Office.

This year we accounted for the Absa final dividend in Q1, in line with the dividend declaration date, and this offset the hedge accounting drag that we have flagged in the past, which will continue through the rest of the year.

I would also expect around £100m of negative treasury items through the Head Office income line, spread across 2019.

We've announced that we will call the 14% RCIs at the end of Q2, which will benefit income in Head Office by about £65m per quarter, from Q3.

Costs of £52m excluding litigation and conduct were broadly in line with the usual run rate.

Below the PBT line, the preference share redemption has reduced the non-controlling interest charge.

### Slide 10: Increased flexibility in the Group cost base to reflect the operating environment

Group costs were down 3% at £3.3bn for Q1.

We are leaving our cost guidance of £13.6-13.9bn for 2019 unchanged. However, I want to stress that, should the challenging income environment of the first quarter continue, we expect to reduce 2019 costs below £13.6bn.

Key cost levers we will review throughout the year are:

- Further flexibility in compensation costs, particularly in the CIB, depending on the income performance; and
- Prioritisation, and adjusting the pace, of investment spend

BX has improved cost efficiency, driving operating leverage, and enabling capacity to invest, but with flexibility in the phasing of this spend.

Cost control is important in achieving our returns targets, but we will balance this with the Group's longer-term interests and opportunities.

### **Slide 11: TNAV progression**

TNAV increased in the quarter by 4p to 266p.

Earnings per share of 6.3p were partially offset by net reserve movements, including the dollar currency headwind and pension surplus re-measurement.

### **Slide 12: CET1 ratio at target level**

Q1 showed the usual seasonality in our capital ratio, with the increase in RWAs of £7.8bn offsetting the 39bps contribution from profits.

There was also the regular Q1 headwind of 8bps from vesting share awards, which we do not neutralise through new share issuance.

As a result, the CET1 ratio finished the quarter at 13.0%.

The RWA increase reflected higher activity levels at the end of the quarter in CIB, and £1.6bn from the implementation of IFRS16 for operating leases.

We continue to feel confident in our ability to generate capital, and remain comfortable with a capital ratio of around 13%.

As you know we paid a dividend of 6.5p for 2018, and have indicated some progression in 2019, and we remain confident that going forward our capital generation will fund both our investment plans and increased distributions to shareholders.

We also have a strong leverage position. At Q1 the average UK leverage ratio was 4.6%, slightly up on 4.5% at Q4 and flat year-on-year. The spot leverage ratio was 4.9%, both comfortably above the 4% minimum UK requirement.

We monitor leverage daily, but continue to view it as a backstop capital measure, with the risk-based measure being the primary management ratio for the Group.

### **Slide 13: High quality funding position with a conservatively positioned liquidity pool and LDR**

Our funding and liquidity position remains strong.

Our Loan to Deposit ratio of 80%, down from 83% at year end, reflected conservatism in light of the Brexit uncertainty at the end of the quarter.

We have diversified funding sources, including roughly two-thirds coming from both consumer and wholesale deposits, which are not directly ratings dependent. So we aren't over-reliant on wholesale funding markets, either at a Group level, or in the respective businesses.

We are well on track to meet our future MREL requirements, currently at 27.7% compared to an expected requirement of around 30%. We have issued £2.2bn in the year to date, in line with our current plan to issue around £8bn in 2019, compared to the £12bn we issued in 2018.

The Q1 issuance included \$2bn of AT1, which we continue to view as a valuable and cost effective element of our capital stack and funding structure.

As most of you will be aware, we issue MREL out of our HoldCo, in line with the Bank of England's preferred structure, and MREL represents just 8% of our overall funding.

The Liquidity Coverage Ratio was 160% at the end of the quarter, with a liquidity pool of £232bn, which represents just under 20% of our balance sheet, positioning us conservatively in light of the continuing Brexit uncertainties.

### Slide 13: Focused on profitability and returning capital to shareholders

So, to re-cap

- We remain on track in execution of our strategy.
- We reported a RoTE of 9.6% excluding litigation and conduct, or 9.2% on a statutory basis and continue to target RoTE of greater than 9% and 10% for 2019 and 2020 respectively, based on a CET1 ratio of around 13%.
- We remain very focussed on cost control and will continue to monitor the income environment closely throughout the year.
- We have reported four consecutive quarters of TNAV accretion, and we are at our CET1 target of around 13%.

Thank you, and we will now take your questions, and as usual I would ask you to limit yourself to two per person.

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