Barclays PLC Q1 2014 Interim Management Statement

Analyst and Investor Conference Call

Tushar Morzaria, Group Finance Director

Slide 2: Name Slide – Tushar Morzaria

Good morning and thank you for joining me.

Antony and I have agreed that, going forward, I will present our Q1 and Q3 results. We will both present the full year and interim results.

As you know Antony and I are going to present a strategy update the day after tomorrow.

So on today's call I'm not going to pre-empt what we'll present on Thursday, but I will run through the Q1 results in some detail.

I'll leave plenty of time for your questions and will do my best to answer them, but I'm sure you'll have a number of questions that are best addressed on Thursday.

Slide 3: Performance highlights

The areas of strength and weakness in the results are fairly clear with good momentum in our traditional banking franchises, and progress in a number of our IB businesses, offset by significant weakness in FICC

Antony has said previously that cost is the strategic battleground for our industry, and we saw material benefits coming through from our cost programmes, reporting the lowest level of quarterly operating expenses since Q3 2009 at £4.2 billion excluding CTA.

Of course there is some seasonality in costs – and in particular the bank levy comes into Q4 each year, but we are in a good position to better our original cost guidance of £17.5 billion for 2014, excluding CTA, and we'll be saying more about our cost programmes on Thursday.

Adjusted PBT for the Group was down 5%.We also continued to strengthen our capital position with CET1 reaching 9.6% and the PRA leverage ratio reaching 3.1%.

Net tangible book value also increased, by 1 pence in the quarter to 284 pence.

Slide 4: Steady performance by traditional banking franchises, offset by weakness in FICC

Going into more detail on the Group P&L, income was £6.7 billion, generating adjusted profit before tax of £1.7 billion - a small reduction on last year, as Antony flagged at the AGM a couple of weeks ago. Statutory profit before tax was £1.8 billion.

Own credit has been excluded from our adjusted results, which are the basis for most of my discussion today.

We saw increases in PBT in all our businesses, except the IB and Wealth – and within the IB, the decline was driven by FICC.

Group income was down 14% at £6.7 billion, reflecting growth in our UK retail and Barclaycard businesses, but significantly lower income in FICC.

We charged £548 million in impairment during the quarter, down 22% year on year, with an annualised loan loss rate of just 45 basis points.

Total operating expenses including CTA were £4.4 billion. Excluding CTA, operating expenses were £4.2 billion. This reflected sustainable cost savings achieved following last year's CTA spend that we talked about at full year.

Our effective tax rate for the quarter was broadly stable year on year at 33% on adjusted profits. The full year rate for 2013, you will recall, was higher because of the deferred tax asset write off we took in Q4.

Q1 has continued the improving trends on balance sheet metrics, with progress on funding, liquidity, and capital.

The net interest margin has stabilised, and we have continued to demonstrate solid credit risk management.

I'm going to spend a few minutes on these themes before summarising the performance of each of our businesses.

Slide 5: Continued strong financial fundamentals, providing a platform for long-term sustainable returns

We have continued to reduce the size of our balance sheet with estimated leverage exposure, after PRA adjustments, reducing a further £39 billion in the quarter to just over £1.3 trillion, while the IFRS balance sheet total rose slightly, with the seasonal increase in settlement balances.

RWAs were reduced to £429 billion and fully loaded CET1 capital increased by £1 billion to £41.4 billion, taking the CET1 ratio to 9.6%.

We continue to be well funded and maintain liquidity in excess of regulatory requirements.

Of course, returns continue to be below our expectations, and again that will be a key focus of Antony's presentation on Thursday.

Slide 6: Well positioned for future minimum anticipated requirements

I've summarised in this next slide how we are tracking compared to future minimum regulatory requirements, with further progress on CET1, the PRA leverage ratio and the LCR ratio.

Although we are already meeting, or on track to meet, these anticipated future minimum requirements ahead of their compliance dates, it remains important that we anticipate further regulatory change where we can and stay ahead of the curve.

Slide 7: Net interest income - driven by volume growth

Moving on to net interest income, the total was £3.1 billion, up 8% year on year, with increased customer NII and a flat net contribution of approximately £400 million from structural hedges.

As you know, we calculate our net interest margin across our retail, corporate and wealth businesses – and we use total assets plus liabilities as the denominator.

Average customer assets plus liabilities for these businesses were up 4% year on year, while NIM was flat at 179 basis points.

As a percentage of average customer assets, the way some banks report their margins, NIM increased from 345 basis points to 361 basis points.

Slide 8: Asset quality trends remain favourable

Our strong risk management was reflected in further improvement in impairment, with a charge of £548 million, as you can see on this slide.

This was a 22% improvement on Q1 2013, with charges in Corporate Banking and Africa RBB in particular continuing to decline.

Credit metrics remain strong, as Credit Risk Loans continued to fall as a percentage of loans.

The overall outlook remains benign with most delinquency statistics broadly stable.

Slide 9: On track to better 2014 cost guidance of £17.5bn

Turning now to costs. Excluding CTA, costs reduced from £4.8bn last year to £4.2bn, as we achieved significant reductions from our cost actions. We also had some favourable FX impact, partially offsetting the negative FX impact on the income line.

Looking at the cost savings in more detail, this slide shows the reduction in costs detailed by business. As you can see staff costs were down and within this compensation reduced 14% to £2.4 billion, with IB compensation down 20%.

In the IB, there was of course a decline in current year performance cost accrual, but also in non-performance compensation, including an 8% decline in salary cost despite the introduction of role-based pay.

IB headcount was down 800 in Q1, including a proportion of the Managing Director and Director cuts we referred to in February – and as you have seen there are further headcount reductions coming through in Q2.

We have also been cutting non-compensation costs in the IB, which, excluding CTA, reached their lowest level since 2010 in the quarter.

There have been cost saves across all businesses but some take longer to show up in the opex run rate than others, most notably in ERBB where the run rate savings from the £400 million of CTA spend last year won't be fully phased until later this year.

Slide 10: UK RBB – improving income and cost efficiency

Turning now to each of the businesses, UK RBB performed well, and is strongly positioned for the continuing UK economic recovery.

Income was up 7%. We saw continuing volume growth in assets and deposits, while NIM has increased 4bps and we are well positioned for increases in interest rates going forward.

Mortgage stock share reached a record 10% - and growth in most other retail products has exceeded market growth.

Operating expenses ex CTA were down 4% - and we completed during Q1 the latest phase of headcount reductions, totalling 1700 FTEs, almost all of them voluntary. The full effect of these will show through in reported cost numbers as we go through the year.

This, combined with increased income, resulted in positive jaws, and PBT up 20% year on year.

Our return on equity increased to 12.4%, and return on tangible equity 21%, and we're confident that this business will continue to generate strong returns.

Slide 11: Barclaycard – continued growth with strong returns

Barclaycard continued to grow the UK and international businesses, delivering 3% income growth, and maintaining strong returns with an RoE of 18.6%.

We saw further volume growth in assets and in our US deposits. Although NIM was down year on year, it increased to 819 bps from 807 bps in Q4.

Impairment increased 3% and with operating expenses down 10%, we had strong positive jaws, delivering a 17% increase in PBT to £423 million.

Barclaycard remains a key element in the delivery of strong returns to shareholders at the Group level.

Slide 12: Corporate – turnaround continues with significant increase in profitability

Corporate Banking had a good quarter, with PBT increasing 42% year on year to reach £260 million, despite a £58 million year on year negative fair value movement in the ESHLA loan portfolio.

This improvement reflects good performance in the UK franchise, rationalisation of the geographic footprint and further improvement in impairment, particularly in Spain.

Returns overall are not yet at a satisfactory level, despite the increased PBT – but we are confident about the direction of travel, with cost savings coming through and some asset growth in the UK in Q1.

Slide 13: Africa, Europe RBB, Wealth – turnaround or repositioning plans underway

Moving on to Africa RBB, Europe RBB and Wealth, Africa RBB improved performance with PBT just over £100 million, up 25% despite a significant depreciation in the Rand – this equates to a 75% increase on a constant Rand basis.

This improvement reflects actions we took in 2012 and early 2013 to provide against credit risk, particularly in the South African home loans recovery book.

We still have some way to go to bring returns up to a satisfactory level, but we have strong market positions in Africa and critical mass across the continent – a key element in our geographic diversity.

The reduction in the loss for Europe RBB to £88 million includes the £353 million reduction in CTA, reflecting the significant restructuring we announced in the first quarter last year, as we reduced branches and distribution points by nearly 50% over the course of 2013.

The decline in income as we scaled back the business was more than offset by lower impairment and some cost savings coming through from the restructuring.

We are aiming for Europe Retail, excluding Exit Quadrant Assets, to reach breakeven over the next couple of quarters, as further cost savings from the restructuring take place.

The new management team in Wealth has continued to implement their revised strategy to simplify the way the business operates. This involved a further CTA charge of £22 million in Q1.

The lower level of income was more than offset by cost savings, but returns remain below a satisfactory level.

Slide 14: Investment Bank – continued tough FICC environment

The Investment Bank generated £668 million of PBT for the quarter. Confidence in FICC markets remained subdued, as in the second half of 2013, although FICC income was up on Q4.

Income was £2.5 billion, with a year on year decline of 41% across FICC businesses which accounted for the majority of the overall decline in income against Q1 last year.

Investment Banking income was flat year on year, while Equities was down 5%.

There was an impairment release of £46 million, and costs were £1.9 billion in total, down 14% year on year, with compensation down 20% to £1.1 billion.

The reduction in operating expenses reflected the lower compensation costs, as I mentioned earlier, and some additional benefits from Transform, but further cost reductions are not yet fully reflected in the cost run rate and will phase in over the rest of the year.

RWAs continue to be tightly controlled with a slight decrease to £219 billion, with continuing risk reduction, partially offset by increases in operational risk RWAs and further methodology changes.

Returns are based on capital allocation on a CRD IV basis, and as a result are well below satisfactory levels at 4.7%. This reflects significant drag from Exit Quadrant assets and other underperforming parts of the business, principally within FICC.

Slide 15: Investment Bank – quarterly income trend

The Equities and Investment Banking franchises continue to develop well. We had a number 1 position in Global DCM, and a top 3 position in US M&A with an increased share. Landmark deals included Cisco's $8 billion multi-tranche bond issue and leading 8 of the 11 syndicated Eurozone sovereign benchmark transactions, totalling approximately €32 billion. The Investment Banking fee pipeline is also at very strong levels, up on this time last year, including our current role as financial advisor to Valeant Pharmaceuticals on the $47.5 billion offer for Allergan.

The FICC performance in Q1 was clearly disappointing, but there were a number of factors to bear in mind.

FICC market conditions have generally been weak in Q1, and we have been heavily geared towards Macro Products and those asset classes seem to have performed least well, so our mix was not helpful. You will see smaller headwinds from Exit Quadrant activities and from adverse currency moves. But some of the decline is also the result of conscious decisions we have made, both last year and during Q1.

In addition to the changes we announced last year, we have been making further refinements to our business mix during Q1 in light of the strategic review of the IB. You will have seen that we have been shrinking our Commodities footprint, which other banks have noted performed strongly, but there are also other areas where we have been starting to reposition.

When looking at year on year performance against peers, also bear in mind that we had a better relative performance last year. That does give us a higher starting point – but there is no doubt that we have underperformed in FICC.

Of course, as we shrink certain product lines the related cost reductions will lag revenue reduction in our reported numbers. However I would remind you that the IB did post its lowest non-performance costs since 2009.

Slide 16: Conclusion

I mentioned at full year that the initial priorities Antony and I agreed on when I joined were to focus on capital ratios and the PRA leverage ratio in particular.

We made good progress on these areas in the latter part of 2013 and this has continued in Q1, with further capital accretion and reduction in RWAs and leverage exposure.

We are working intensively on costs, and you can see some of the strong progress we are making coming through in the Q1 results, which demonstrate that we are on track to better the £17.5 billion target we had originally set for 2014.

Of course, since we set this target, and that of £16.8 billion for 2015, the income outlook for FICC has deteriorated, and Antony and I have conducted an in-depth review over the last few months to establish a clear path to sustainable returns above the cost of equity for the Group.

This review has not been limited to the IB, but the direction for the IB clearly forms a critical element of it – and we will be giving the market details of our plans on Thursday.

In the meantime, before we move to Q&A, I would just like to emphasise that we reported adjusted PBT of £1.7 billion, with strong momentum in our traditional banking franchises and progress in parts of the IB, partially offsetting the significant weakness in FICC.

We generated a statutory EPS of 5.9 pence per share and are declaring an interim dividend of 1.0 pence. In terms of the outlook for dividends, as I said at full year, I would see a 2014 dividend at the 40% pay-out level, subject of course to meeting regulatory minimum requirements.

With that we'll move onto Q&A.

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