Barclays PLC Q3 2015 Results

Analyst and Investor Conference Call Speech

Tushar Morzaria, Barclays Group Finance Director

Slide 2: Tushar Morzaria, Barclays Group Finance Director

Good morning and thanks for joining our Q3 call.

As you heard yesterday, Jes Staley will be joining us in a month's time as our new Group Chief Executive. He's had a distinguished career to date, with hands on experience across a number of business lines. We're very lucky to have Jes on board, and I'm looking forward to working with him again.

For now though, I'll use this call to take you through our recent performance and our immediate financial objectives. Let me first take you through the highlights of the year to date.

Slide 3: Continued progress in 2015 year to date

I'm pleased to report further progress on our strategy, and good performances from all our operating businesses, with standout Q3 results from Barclaycard and PCB.

In the first nine months of 2015, we increased Group adjusted profit before tax by 4% to £5.2 billion and Core PBT improved 7% to £6.0 billion.

All our Core operating businesses increased profits and improved RoE's; and again we achieved positive jaws at both the Group and Core level. We delivered a double

digit adjusted Core RoE of 10.5%, and this was on an average equity base that was £6 billion higher at £47 billion.

We continued to run down Non-Core successfully: RWAs are down by £20 billion since the start of the year with £2.5 billion of further capital released to the Core.

Capital strengthened again in Q3, even after taking legal provisions of £560 million, as we made progress with legacy litigation and conduct issues.

With the increase in RWAs, mainly in PCB and the Investment Bank, our fully loaded CET1 ratio stayed steady at 11.1%, while the leverage ratio increased to 4.2%.

Our ongoing strategic cost programme reduced total operating expenses by 5% to £12.5 billion year-to-date.

Now let me take you through our Summary Financials for the first 9 months for 2015 and then I'll focus more on the third quarter in the Core businesses and Non-Core.

Slide 4: Summary group financials: adjusted PBT up 4% in 2015 YTD

The 4% increase in adjusted profit equates to a 7% increase in statutory profit before tax, after taking account of adjusting items.

Income decreased 3% year-over-year largely due to the active run-down of Non-Core and the resulting sale of income generating businesses and assets. Core income grew 2%.

Impairment improved by 8%, as our loan loss rate reduced 3 basis points to 40. The 5% reduction in costs, with income down 3%, again gave us positive jaws.

I'll now take you through the main Q3 adjusting items:

Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register No. 122702).
Registered in England. Registered No. 1026167. Registered office: 1 Churchill Place, London E14 5HP.

We took a provision of £290 million for UK customer redress, relating to rates provided to certain customers on foreign exchange transactions.

We made no additional PPI provision in Q3, but have noted the recent FCA statement and proposed consultation, and will continue to monitor claims volumes as this consultation progresses and the results are implemented.

We took legal provisions of £270 million, including CDS and RMBS related civil litigation settlements in Q3, adding to the FX settlements earlier in the year.

We have adjusted for a £201 million loss on sale, mainly relating to the Portuguese retail business in Non-Core, which is expected to complete in the first quarter of 2016.

We achieved an adjusted attributable profit of £2.9 billion, generating an RoE of 7.1% and an adjusted EPS of 17.9 pence.

Turning now to our capital position.

Slide 5: Progressive strengthening of key capital metrics

We have built significant capital since 2013, accreting 200 basis points and that's after absorbing significant conduct and litigation provisions, which have had an aggregate impact of around 100 basis points on our CET1 ratio during that time.

In the third quarter, CET1 capital increased by £413 million to £42.4 billion, despite increased capital deductions, notably PVA while RWAs increased by £5 billion to £382 billion as we grew our corporate business in particular leaving our CET1 ratio at 11.1%.

We expect the CET1 ratio to remain at around the current level through year-end.

Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register No. 122702).
Registered in England. Registered No. 1026167. Registered office: 1 Churchill Place, London E14 5HP.

Our current end-state capital ratio target is just over 12%, based on a management buffer of around 150 basis points above our regulatory minimum. As we have said previously, progress towards this target will not always be linear, but we currently expect to achieve the target ahead of the 2019 timeline.

We increased our leverage ratio again this quarter to 4.2%, with Tier 1 capital up £1.4 billion to £47.9 billion, including the issuance of a further £1 billion of AT1 securities in the quarter.

TNAV increased 10p this quarter to 289p from profit generation and favourable reserve movements.

I'll now turn to our Core performance.

Slide 6: Q3 Core performance: profit growth across all operating businesses

In Q3, our Core businesses generated an adjusted PBT of £1.8 billion and an 11% improvement in attributable profit.

PBT was up 1% on Q3 2014, with growth coming from our operating businesses, offset in Head Office by negative income and increased costs from Structural Reform, which I will expand on shortly.

Core RoE for Q3 was 9.5%, the same as last year, but on a materially higher average equity base. Excluding CTA the Core RoE was 10.7%.

Core income increased by 2% to £6.1 billion and we saw lower impairment charges which fell by 4% to £470 million.

I've been asked in recent months about exposures to the oil & gas and metals & mining sectors. These together represent just 3% of our total – and our exposure is well balanced, with a large proportion to oil majors, diversified mining majors, and other investment grade.

Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register No. 122702).
Registered in England. Registered No. 1026167. Registered office: 1 Churchill Place, London E14 5HP.

BARCLAYS

Minimal impairment has been charged in these sectors over the year to date.

Operating expenses increased 3% to £3.9 billion due to business growth and one-offs in Barclaycard, and Structural Reform costs in Head Office, as well as increased conduct and litigation charges and CTA.

The Core EPS contribution was 6.8 pence.

Focusing now on each Core business in turn – first PCB which recorded its highest quarterly RoE since 2012 of 14.4%.

Slide 7: PCB: PBT up 8% and RoE of 14.4%

PBT for the quarter was up 8% year on year at £855 million.

Corporate in particular performed well, with income up 4% and pleasing loan growth of 9% year on year, mainly due to larger corporate clients. We saw growth in corporate lending and cash management, and on the liability side deposit margins also improved.

Income from Personal banking was down by 4% as a result of some mortgage margin pressure and lower fee income, partially offset by improved deposit income.

Customer balances grew, with both loans and deposits up by 1%, the latter driven by product simplification and pricing initiatives.

And Wealth income reduced by 17% mainly as a result of the impact of the US business sale, which we announced in Q2 and expect to complete in Q4.

Although NIM was down 8 basis points year-on-year to 2.97%, year-to-date it was in line at 2.99%, and we've guided to a broadly flat PCB margin to the end of 2015.

Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register No. 122702).
Registered in England. Registered No. 1026167. Registered office: 1 Churchill Place, London E14 5HP.

Impairment reduced by 36%, reflecting the improving UK economic environment, resulting in lower default rates and charges.

And with total operating costs down by 5% to £1.3 billion, we delivered another quarter of positive jaws, resulting in a quarterly Cost:Income ratio of 58%, which we will continue to drive down.

Slide 8: Digital is Barclays biggest branch

What we call the Digital Branch is increasing in importance as we migrate customers to online and mobile products and solutions.

We are seeing high rates of digital adoption particularly among our retail customers, but we are also rolling out some of these products to Corporates as well.

We've also seen continued growth in digital origination – where customers have a loan which we offer them online.

We have originated £1.2 billion of unsecured lending digitally through to the end of September, already well in excess of the 2014 total, and recently exceeding the amount originated via the branch network year-to-date.

The cost benefit from digital can be seen in online lending's cost income ratio of low 20's.

Turning now to Barclaycard – this was another impressive performance for this business, continuing many of the trends seen in the first half.

Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register No. 122702).
Registered in England. Registered No. 1026167. Registered office: 1 Churchill Place, London E14 5HP.

Slide 9: Barclaycard: continued growth; PBT up 40% and RoE of 22.5%

We delivered another record profit for the quarter and year-to-date with continued strong growth in Q3.

Income grew by 15% to £1.3 billion, mainly driven by the US business, with US cards now representing over a third of total income.

Impairment was flat and the LLR decreased 38 basis points to 271 basis points, but it's likely to increase to around 300 basis points for the full year, as we implement methodology updates in Q4, with Q4 impairment expected to be at a broadly similar level to last year.

Net operating income for the quarter was over £1 billion for the first time.

Costs increased 5% to £507 million, still generating significant positive jaws. That reflected business growth as well as some strengthening of the US Dollar against Sterling, but we also incurred a one-off cost of £55 million from the intangible write off in relation to the exit from our Digital Marketplace rewards offering, which you may know as "Bespoke".

This action is a good example of the more rigorous approach we are taking to improving returns that John has talked about.

Overall Barclaycard PBT increased 40% to £508 million, resulting in an improved RoE of 22.5%.

Now let me turn to Africa Banking.

Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register No. 122702).
Registered in England. Registered No. 1026167. Registered office: 1 Churchill Place, London E14 5HP.

Slide 10: Africa banking: RoTE of 13.3% in a challenging environment

On a constant currency basis PBT grew by 4% to £251 million, while attributable profit increased by 15%.

The 12% depreciation in the Rand vs. Sterling year-on-year led to an 8% reduction in reported PBT.

So looking at the results in Rand, income grew by 4%, driven by continued good momentum in Retail and Business Banking both inside and outside of South Africa.

Costs also increased by 4%, reflecting inflationary pressures, partially offset by the benefits of the strategic cost programmes.

Impairment increased marginally to £69 million. We continue to monitor the challenging macro environment in Africa, but given our conservative risk profile in the region, we feel well positioned to continue to build returns.

RoE and RoTE increased modestly to 9.7% and 13.3% respectively.

Turning now to the Investment Bank.

Slide 11: Investment Bank: PBT up 12% with a 9% increase in income

The Investment Bank delivered good progress this quarter. Total income increased 9% to £1.8 billion, and with positive jaws this drove a 12% increase in PBT.

Income grew despite RWAs being down around £7 billion on the same period last year at £121 billion.

When combined with a lower allocated equity of £14.6 billion, RoE increased to 5.2% for the quarter, and by 370 basis points to 8.6% for the year-to-date. On an ex-CTA basis, the year-to-date RoE was 9.6%.

Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register No. 122702).
Registered in England. Registered No. 1026167. Registered office: 1 Churchill Place, London E14 5HP.

Breaking down the income line, Banking performed well, up 20%, driven by higher advisory fees where we had our best quarter since 2011.

Our banking team continues to execute on key transactions, for example we acted as Financial Advisor to The Williams Companies on their announced combination with Energy Transfer Equity, for a total transaction value of $55bn. This is the largest announced US Oil & Gas deal this year.

DCM also performed well, as we moved into the top 3 globally for acquisition finance, up from 5th last year.

Following significant restructuring over the last year, our Macro business again delivered a solid performance in Q3, with a 3% increase in income year-on-year. This was driven mainly by Rates, reflecting increased client activity, helped by higher market volatility.

Credit income was down 11% at £228 million, as securitised products and distressed credit made up a smaller proportion of our business compared to last year. However, our flow focused business did well on the back of strong client activity in a volatile market.

Lastly, equities income was up 12% against Q3 last year, which was affected by Dark Pools, with an increase in both cash equities and particularly derivatives, which saw a very good performance, driven by increased volatility.

Total operating expenses for the IB increased 6% to £1.5 billion driven mostly by higher litigation and CTA as we took action to manage headcount. Costs excluding litigation and CTA were up 1% due to continued investment in our infrastructure with a strong focus on improving controls, conduct and efficiency.

So we have made progress in Q3. However, we still have further work to do as we continue to reduce the cost base and optimise capital to generate attractive and sustainable returns.

Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register No. 122702).
Registered in England. Registered No. 1026167. Registered office: 1 Churchill Place, London E14 5HP.

I would note that the Investment Bank has seen weak markets in October, compared to October of last year.

Turning now to Non-Core, we made further progress this quarter on business sales, derivatives unwinds and sales of securities and loans.

Slide 12: Non-Core: continued shrinkage and capital recycling

We completed the sale of the UK Secured Lending business, and as you know we announced the sale of our Portuguese retail business, which we expect to reduce RWAs by £1.7 billion in Q1.

Income reduced to £6 million as the income generated from Businesses was offset by negative income of £138 million for Securities & Loans and £55 million for Derivatives, resulting from the active rundown of these portfolios and associated funding costs. Securities & Loans included a fair value loss of £28 million in Q3 on the ESHLA portfolio.

We also had an increase in PVA relating to the ESHLA portfolio, as our model was updated to reflect market data points.

I've emphasised in the past that as we dispose of assets and businesses from Non-Core, we lose income as well as costs.

For example, the Portugal business is now broadly at breakeven and, once completed, the sale will result in an annualised reduction in the Non-Core cost base of £70 million and a roughly equal income reduction.

Costs for Q3, excluding litigation and conduct charges and CTA, were down £105 million year-on-year at £216 million – a similar level to the previous two quarters.

The attributable loss for the quarter increased to £328 million.

Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register No. 122702).
Registered in England. Registered No. 1026167. Registered office: 1 Churchill Place, London E14 5HP.

The next slide shows the good progress we have made on reducing RWAs, leverage and cost, while also reminding you about the associated income impact I mentioned previously.

Slide 13: Non-Core – reductions across every measure

Taking RWAs first, Businesses and Securities & Loans were lower by a total of £3 billion, offset by a marginal net increase to Derivative RWAs of £1 billion.

On an underlying basis we reduced derivatives by £2 billion through unwinding and restructuring trades, but this was masked by a £3 billion increase from counterparty credit risk model updates and adverse movements in rates and currencies.

We have a good pipeline of transactions to deliver RWA reductions over the next few quarters.

It is worth noting that RWAs have halved since the start of 2014 to £55 billion, reflecting the impressive work the Non-Core team has done, and giving us confidence in our revised guidance of around £20 billion of RWAs in Non-Core by the end of 2017, as we continue our programme of asset reductions across all Non-Core portfolios.

Leverage exposure was reduced by a further £14 billion in Q3, representing a 60% reduction since June 2014.

Cost savings from our ongoing cost programmes and the sale of the Spanish and UAE businesses drove the £105 million reduction in costs since Q3 2014. We expect further significant cost reductions to be driven by Business disposals.

We have concrete plans to bring down the cost base to a quarterly run rate of around £125 million from Q4 2016, excluding Bank Levy, litigation and CTA – and will target further cost cuts in 2017.

Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register No. 122702).
Registered in England. Registered No. 1026167. Registered office: 1 Churchill Place, London E14 5HP.

BARCLAYS

And finally, the chart on the bottom right demonstrates the drop in income I called out earlier, and the different income dynamics of the three Non-Core asset groupings.

Turning now to some overall comments on income and costs, before I conclude.

Slide 14: Core income – growth in Q3 net interest income and margin

While a lot of our focus remains on cost efficiency as we drive down the Group Cost:Income ratio, we are also pursuing income growth opportunities, and we achieved Core income growth of 2%, with notable growth of 15% in Barclaycard, and 9% in the Investment Bank.

Across PCB, Barclaycard and Africa Banking, NIM was 417 basis points for the quarter, broadly flat year-on-year.

Barclaycard NIM improved 42 basis points to 9.26% but we would not expect this to remain above 900 basis points as we continue to expand the business.

Turning now to progress on our cost programme. I've mentioned that our adjusted cost base is down 5% to £12.5 billion year to date – excluding CTA that's £11.9 billion.

You can see on the next slide the tremendous progress we have made in reducing Group costs over the last couple of years.

Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register No. 122702).
Registered in England. Registered No. 1026167. Registered office: 1 Churchill Place, London E14 5HP.

Slide 15: Group, Core and Non-Core cost guidance

As you know, we have been targeting a cost base of £16.3 billion ex-CTA for the Group this year – a reduction of £2.4 billion compared to 2013.

It's worth noting that included in this target are substantial components from Bank Levy, where we've had a 40% increase in the levy rate, higher than expected conduct and litigation, and increasing costs of implementing Structural Reform, as we've highlighted on this slide.

While these components are inflationary, I am pleased that we have been able to reduce underlying costs to create the capacity to absorb them.

In addition, we have taken unanticipated costs as we have exited underperforming businesses and written off intangible assets, as part of our focus on accelerating delivery of improved returns.

For example, we are planning to exit our US Wealth business in Q4 and, as I mentioned earlier, we wrote off intangible assets relating to Bespoke in Barclaycard. These two actions alone have increased Core costs by almost £100 million, but they are RoE accretive and we will not hesitate to execute similar actions again where we can, despite potential cost impacts.

Of course these actions put pressure on the cost target for this year, particularly as we implement them late in the year. But, as I have said, they are the right things to do and will be ROE accretive – our cost targets will not prevent us from taking such actions.

Going into more detail on Structural Reform, the first phase of the costs of implementation are around £100 million this year, and we now have more visibility on the costs and phasing of our Structural Reform implementation programme.

We have decided to take these costs “above the line” within our ex-CTA cost base, but will identify them separately, along with the Bank Levy and conduct & litigation, so you can track our progress on reducing our underlying costs.

Next year these Structural Reform implementation costs are expected to rise to around £400 million, as we ramp up in both the UK and the US.

The final costs of implementation are hard to estimate precisely but our best estimate is around a further £500 million across 2017 and 2018, making a total of around £1 billion.

We are now guiding to £14.5 billion Core operating costs plus around £400 million of Structural Reform costs for 2016.

Achieving further cost reductions beyond 2016, in Core and Non-Core, remains a key priority for us.

In the Non-Core we have clear plans to take the cost base to a quarterly run rate of around £125 million from Q4 2016.

The direction of travel on costs is very clear. The over-riding objective is to drive towards a Group Cost:Income ratio of mid-50s, which John talked about at H1.

Slide 16: Core RoE target or 2016 updated to 11%

The significant increase in UK corporation tax announced earlier this year, and those cost headwinds have implications for our Core RoE.

We have been targeting over 12% for 2016 excluding CTA.

We have now had to incorporate the increase in corporation tax and the structural reform costs in a moderated 2016 Core RoE target of 11%, and we show you here how these factors have contributed to the reduction from the previous target.

BARCLAYS

Slide 17: Progress on targets/updated guidance

So to summarise where that leaves us on targets.

We hit our 2016 milestones 18 months early for CET1 and leverage ratios of greater than 11% and 4% respectively.

We achieved 2014 cost guidance, and I've just been through our 2015 cost progression.

The rundown of Non-Core has progressed well, and we accelerated our run-down plans with a £20 billion target for 2017. This would leave just over £3 billion of equity tied up in Non-Core.

With the greater clarity on Structural Reform costs and a full year of the higher levy rate, our 2016 Core cost guidance is £14.5 billion plus Structural Reform costs.

And we have moderated our Core RoE target to 11% in 2016.

On Non-Core, we are aiming to exit 2016 with a cost run rate of around £125 million per quarter.

The right way to achieve this and reduce the Non-Core capital requirement is to execute the accelerated run-down. Focusing on reaching a target RoE drag of below 3% in 2016 could lead to sub-optimal decisions on the pace of rundown.

Of course as we do so we will track the Group's capital ratio progression very carefully.

We will also continue to resolve legacy litigation and conduct issues as quickly as possible.

As John said at the half year, we want to get ourselves into a position where the Core RoE drives the Group's statutory RoE.

So, in summary, I'm pleased to report further progress this quarter on our strategy, and good performances from all our operating businesses.

Now I'm very happy to take your questions.

Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Financial Services Register No. 122702).
Registered in England. Registered No. 1026167. Registered office: 1 Churchill Place, London E14 5HP.

Important Notice

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

Forward-looking statements

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and Section 27A of the US Securities Act of 1933, as amended, with respect to the Group. Barclays cautions readers that no forward-looking statement is a guarantee of future performance and that actual results or other financial condition or performance measures could differ materially from those contained in the forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'may', 'will', 'seek', 'continue', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'achieve' or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding the Group's future financial position, income growth, assets, impairment charges and provisions, business strategy, capital, leverage and other regulatory ratios, payment of dividends (including dividend pay-out ratios), projected levels of growth in the banking and financial markets, projected costs or savings, original and revised commitments and targets in connection with the strategic cost programme and the Group Strategy Update, run-down of assets and businesses within Barclays Non-Core, estimates of capital expenditures and plans and objectives for future operations, projected employee numbers and other statements that are not historical fact. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. These may be affected by changes in legislation, the development of standards and interpretations under International Financial Reporting Standards, evolving practices with regard to the interpretation and application of accounting and regulatory standards, the outcome of current and future legal proceedings and regulatory investigations, future levels of conduct provisions, the policies and actions of governmental and regulatory authorities, geopolitical risks and the impact of competition. In addition, factors including (but not limited to) the following may have an effect: capital, leverage and other regulatory rules (including with regard to the future structure of the Group) applicable to past, current and future periods; UK, US, Africa, Eurozone and global macroeconomic and business conditions; the effects of continued volatility in credit markets; market related risks such as changes in interest rates and foreign exchange rates; effects of changes in valuation of credit market exposures; changes in valuation of issued securities; volatility in capital markets; changes in credit ratings of any entities within the Group or any securities issued by such entities; the potential for one or more countries exiting the Eurozone; the implementation of the strategic cost programme; and the success of future acquisitions, disposals and other strategic transactions. A number of these influences and factors are beyond the Group's control. As a result, the Group's actual future results, dividend payments, and capital and leverage ratios may differ materially from the plans, goals, and expectations set forth in the Group's forward-looking statements. Additional risks and factors which may impact the Group's future financial condition and performance are identified in our filings with the SEC (including, without limitation, our Annual Report on Form 20-F for the fiscal year ended 31 December 2014), which are available on the SEC's website at http://www.sec.gov.

Subject to our obligations under the applicable laws and regulations of the United Kingdom and the United States in relation to disclosure and ongoing information, we undertake no obligation to update publicly or revise any forward looking statements, whether as a result of new information, future events or otherwise.

.

Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority
(Financial Services Register No. 122702).
Registered in England. Registered No. 1026167. Registered office: 1 Churchill Place, London E14 5HP.