Barclays PLC FY 2020 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.

Slide 3: Remained open for business throughout the COVID-19 pandemic, helping support the economy

We all know that 2020 was not a normal year.

The pandemic has caused fear and dislocation in societies around the world.

It has caused huge economic harm and uncertainty, with hardship and stress for millions of people.

And it has brought tragedy to so many families, including among friends and colleagues.

In common with others, it has tested our resilience as a business, and our values as a corporate citizen.

While we have faced significant challenges, I want to say first of all how proud I am of the way in which our colleagues at Barclays have responded to an extraordinarily difficult year.

Their efforts have been the driving force that has enabled us to step up and play our full part in the battle to contain the damage that this terrible disease is causing all around us.

That commitment from my colleagues, and the core resilience of our business, meant that we have stayed profitable in every quarter of 2020. And that strength in turn has allowed us to support our customers and clients, and the communities around the world where we live and work.

During 2020 we provided almost 700,000 payment holidays to our customers; waived around £100 million in overdraft interest and banking fees; and we have committed a further £100 million to charities supporting the most vulnerable, through our Community Aid Package.

We have helped our clients raise £1.5 trillion in the global capital markets, and extended some £27 billion to companies through the UK Government's lending schemes.

Slide 4: Diversified banking model which provides resilience through economic cycles

And we have been able to deliver all of that support while holding our top line steady. Overall, Group income was £21.8 billion, up 1% on 2019.

But it is the composition of that income which shows most clearly how our diversified model has worked to absorb the shocks of 2020, and still deliver resilient overall performance

Our consumer operations felt the impact of the pandemic most acutely, with Barclays UK income down 14% while our Consumer Cards and Payments business was down 22%.

But at the same time, in our wholesale business, Corporate and Investment Banking income was up 22% for the year, stabilising Group income at a time of extreme stress.

Slide 5: Resilient FY20 performance despite the COVID-19 pandemic

Before provisions, we generated profits of almost £8 billion for the full year, but these were heavily tempered of course in the approach we have taken in terms of impairment charges driven by the pandemic.

Full year impairment charges were £4.8 billion, to take the Group's total impairment reserve to £9.4 billion, reflecting our cautious view of the impact of COVID.

However, we were encouraged that the fourth quarter charge was down 19% relative to the previous quarter, at just under £500 million. And we expect 2021 full year impairment charges to be materially below the 2020 level.

Overall Group profit before tax was therefore £3.1 billion, including generating a Profit Before Tax of £646 million in the fourth quarter.

Slide 6: CIB returns improvement driven by material growth in market share of the Markets business since 2017

The drivers of that performance were in the Investment Bank, where Markets and Banking both delivered their best-ever income performances, up 45% and 8% respectively.

It's important to note that this standout Markets performance reflects not only the significant growth in the Global Capital Markets, but also material market share gains by Barclays.

We have consistently grown share in Markets over the past few years, moving from market share of 3.6% in 2017 to 4.9% in 2020. And growth has been across Macro, Credit, and Equities.

Markets and Banking income together has grown 45% over the same period, relative to an industry wallet which has grown roughly 20%.

Together, these data points illustrate the tangible momentum we have built in our Investment Bank, a business delivering improving returns year over year, and producing an RoTE of over 13% in 2020, despite a high impairment charge.

While Corporate income was down 13%, including the impact of lower interest rates, the CIB as a whole delivered income of £12.5 billion, up 22% year on year, and profit before tax of £4 billion pounds, up 35%.

Slide 7: Consumer spending impacted by extended lockdowns while mortgage activity remains robust

Our Consumer Cards and Payments business in Barclays International did however make a loss of £388 million for the full year.

This was driven by: impairment charges; a fall in income caused by lower credit card balances; margin compression; and reduced payments activity as a result of the pandemic. CC&P did however return to profit in the last two quarters.

Barclays UK profit before tax decreased by 47% to £546 million, with performance in the year impacted by a significant reduction in income, and the COVID-related impairment charges we took.

We did however see growth in mortgages in 2020, and the business has done a little better since the apparent nadir of the second quarter. We saw a profit in Barclays UK in the fourth quarter of £282 million.

Lest we forget, Barclays UK is a business which, in the decade prior to 2020, regularly produced high returns, as did Consumer Cards & Payments. These remain good businesses, with strong fundamentals, and I expect to see performance improve in both of them as the economy returns to normal.

That said, beyond the immediate impacts of the pandemic, UK retail banking does face some strategic long term challenges: in near-zero interest rates; lower charges for overdrafts and other services; and the provision of many core banking services for free.

In response, we continue to invest in our technology platform, offering digitised finance to enhance our relationships with, and the experience for our customers.

And we continue to focus on running the business efficiently, so that we can generate appropriate profitability, whilst continuing to deliver support to our customers, clients, and communities.

Overall, Group operating expenses, excluding litigation and conduct, rose 1% to £13.7 billion, including roughly £370 million of charges for structural cost actions.

This translates to a Group cost to income ratio of 63% - flat versus 2019. We remain attentive to costs, and continue to target a Group cost to income ratio of below 60% over time.

2020 Group RoTE was 3.2%, and earnings per share were 8.8 pence.

We expect to deliver a meaningful improvement to Group RoTE in 2021, and remain committed to a target of above 10% over time.

Slide 8: Ambition to be a net zero bank by 2050

At the same time as navigating the effects of the pandemic on our business, and working hard to support customers, clients and our communities, we have continued to strengthen Barclays for the long term.

In this respect, in 2020 we made particular progress on our approach to climate change, setting an ambition to be a net zero bank by 2050, as well as a commitment to align all of our financing to the goals of the Paris Agreement.

In late November we set out a plan and methodology for how we intend to achieve this.

Our own operations are already net zero, and our commitment extends to the financing we provide to clients, covering capital markets activity as well as lending.

We will ultimately expand this approach to cover our entire financing portfolio. But we have started with Energy and Power, which between them account for up to three quarters of emissions globally.

We have also set clear goals to help accelerate the transition to a green economy, including £100 billion of green financing by 2030, and directly investing £175 million in sustainability focused start-ups over the next five years.

Slide 9: Strong balance sheet underpinning returns potential

Barclays' capital position strengthened significantly through 2020, with our CET1 capital ratio increasing by 130 basis points in the year, including 50 basis points in the fourth quarter, to stand at 15.1% at year end.

We anticipate some capital headwinds in 2021: from pro-cyclical effects on RWAs; the reversal of regulatory forbearance applied through 2020; and increased pension contributions.

Nevertheless, we remain significantly above our CET1 ratio target of between 13% and 14%, and well above our minimum regulatory requirement, with prudent provisioning for impairments.

Given the strength of our business, we have therefore decided the time is right to resume capital distributions.

We have today announced a total payout equivalent to 5 pence per share for 2020, comprising a full year dividend payment of 1 pence per share, and we will execute a share buyback of up to £700 million.

We expect to comment further on capital distributions when appropriate.

So in summary, Barclays remains well capitalised, well provisioned for impairments, highly liquid, with a strong balance sheet, and competitive market positions across the Group.

I expect that our strong and diversified business model will deliver a meaningful improvement in returns in 2021.

And at the same time we will remain committed to playing our part in supporting customers and clients, our colleagues, and our communities, as we emerge from the COVID-19 crisis.

I'll now hand over to Tushar to take you through the results in more detail.

Slide 10: Tushar Morzaria, Barclays Group Finance Director

Thanks, Jes.

I'll comment first on the full year results, then summarise the fourth quarter performance.

Slide 11: FY20 Group highlights

Our priority during the pandemic has been to support the economy, serving our customers and looking after the interests of colleagues and other stakeholders.

It's been a very challenging year, but the pandemic has shown very clearly the benefits of our diversified business model.

Despite the effects of the pandemic, we reported a statutory RoTE of 3.2%, or 3.4% excluding litigation and conduct.

Litigation and conduct was just £0.2bn, but we had a large PPI charge in Q3 last year, so I'll still reference numbers excluding litigation and conduct.

The impairment charge of £4.8bn, up almost £3bn yoy, reduced PBT from £6.2bn to £3.2bn. However, as you see from this bridge, the increase in CIB income of 22% more than offset the 19% decline in consumer and other businesses.

With income up 1% overall we delivered neutral jaws, and a cost income ratio of 63%, slightly in excess of the group's target of below 60% over time.

TNAV increased from 262p to 269p over the year.

Our capital position is also strong, with the CET1 ratio strengthening further in Q4 to reach 15.1%, up 130bps over the year.

Under the temporary guardrails which the regulator announced in December, our statutory profitability allows us to distribute 5p in aggregate, by way of dividend and buyback.

We plan to launch a share buyback of up to £700m by the end of Q1, which is attractive for us from a financial point of view at current share prices and is equivalent to 4p per share.

In addition, we are paying a dividend of 1p, and reaffirming our intention going forwards to pay dividends, supplemented, as appropriate, by share buybacks.

The level and form of distribution was determined by the current circumstances and you shouldn't read anything particular into the level of the overall payout ratio, or the mix chosen on this occasion.

We'll update the market further on distributions at the appropriate time.

A few words on income, costs and impairment for the year, before moving onto Q4 performance.

Slide 12: Income growth of 1% as strong CIB performance offset consumer business headwinds

This slide shows the split in the 1% income growth, with the 22% increase in CIB, more than offsetting declines of 14% and 22% in BUK and CCP respectively.

In the CIB, our share gains in Markets, and the momentum across the businesses, position us well for the future.

However, conditions remain challenging for the consumer businesses, with reduced unsecured balances and a low-rate environment, as we show on the next slide.

Slide 13: Consumer businesses still facing headwinds from COVID-19 restrictions

We've highlighted in the charts on the right the continuing headwinds from balance reductions in UK and US cards.

We saw some signs of recovery in consumer spending in both the UK and US in Q3, but further lockdowns hit spending over the Christmas period, and this is continuing in Q1.

As a result, credit card balances were down in Q4 in the UK and flat in the US in dollars, rather than seeing the usual seasonal increases.

We've also put on the slide a reminder of the specific headwinds that the consumer businesses are experiencing. Although customer support actions affecting BUK fall away in 2021, the effect of low unsecured balances and interest rates is continuing.

Looking now at costs.

Slide 14: Costs increased 1%, with neutral cost: income jaws

Full year costs were up 1% overall at £13.7bn, due to an increase in structural cost actions to around £370m, but underlying costs were flat year-on-year.

The bank levy increased, but is expected to be lower in 2021, with decreases in both the rate and scope of the levy.

The COVID pandemic has resulted in additional costs for the Group, for example building out the teams to help customers in financial difficulty, and these will remain elevated in 2021.

However, the Group will continue to drive cost efficiencies, while investing in the franchises where appropriate.

Slide 15: Impairment charge increased £2.9bn due to expected future customer and client stress caused by the pandemic

You're already familiar with the increase of £2.9bn in the impairment charge.

This has been driven by deterioration in the economic outlook as a result of the pandemic, and has led to significant increases in the charges in each business, as you can see.

However, this book up in provisions in Q1 and Q2 has not yet been followed by material increases in defaults.

You can see the much lower charges for Q3 and Q4 in the second chart.

We've shown the charge for each quarter, split into Stage 1 plus Stage 2 impairment, mostly relating to balances which aren't past due, which I refer to as "book ups", and the Stage 3 impairment on loans in default.

As you can see, most of the elevated impairment in Q1 and Q2 was from book ups, while most of the Q3 and Q4 charges were on Stage 3 balances.

We've shown on the next slide the macroeconomic variables, or MEVs, we've used in the expected loss calculation.

Slide 16: Balance sheet impairment allowances significantly strengthened, including management adjustments

We've updated the MEVs slightly in Q4. However, I would emphasise that, with the reduction in unsecured balances, and given the ongoing level of government support, the models on their own would have generated a significant provision write back in Q4.

However, there is significant uncertainty as to the level of default we'll see as support schemes are wound down. We have therefore applied significant post-model adjustments, totalling £1.4bn, as you can see in the table.

This increases our total impairment allowance by £2.8bn to £9.4bn, which broadly maintains our increased level of coverage, as you see on the next slide.

Based on forecast unemployment levels, we would anticipate an increased flow into delinquency in 2021, but given our level of provisioning, we would expect a materially lower charge for 2021.

Slide 17: Increased coverage across all portfolios, with unsecured lending coverage ratio at 12.3%

Unsecured balances have come down significantly from £60bn to £47bn through the year, and coverage has increased from 8.1% to 12.3%, with even higher coverage in the credit card books.

The wholesale coverage has almost doubled over the year to 1.5%, and a large proportion of this is in the selected sectors which we consider to be more vulnerable to the downturn.

We've included in the appendix the usual detailed slides on unsecured coverage, selected wholesale sectors, and payment holidays.

Turning now to Q4 performance.

Slide 18: Q420 Group highlights

Q4 income decreased 7% year-on-year, as continuing strong performance in CIB, in both Markets and Banking, was offset by the income headwinds in BUK and CCP.

Costs increased to £3.8bn, including Q4 structural cost actions of £261m and an increased bank levy charge of £299m.

Impairment decreased £31m to £492m year-on-year, of which £444m was for Stage 3 defaulted loans.

Despite the headwinds, Q4 was still profitable, with a PBT of £0.7bn and a RoTE of 2.2%.

Turning to Barclays UK.

Slide 19: Q420 Barclays UK

The headwinds we've referred to in previous quarters continued to affect BUK, with income down 17% year-on-year.

Unsecured balances reduced further in Q4, with gross card balances down from £16.5bn to £11.9bn, a decline of 28% over the year.

Mortgage balances on the other hand were up £5.1bn year-on-year, with a net increase of £1.9bn in Q4, and pricing continues to be attractive.

There was a significant increase in BUK business banking lending over the year, as Bounce Back Loans and CBILS reached roughly £11bn in aggregate.

Loan balances grew by almost £12bn in total to £205bn.

Deposit balances also continued to grow, resulting in a loan:deposit ratio of 89%.

Q4 income included higher debt sales, which contributed to the increase in income compared to Q3.

Q4 NIM was up on Q3 at 256bps, but we expect a clear reduction in 2021, as secured lending continues to grow. This is expected to take FY NIM to around 240bps, absent any changes in base rate.

So the income outlook remains tough, with low demand for unsecured lending and the headwind from the structural hedge, despite an expectation of continued mortgage growth.

Costs increased 11% yoy, as COVID-related costs, and increased structural cost actions, more than offset efficiency savings.

The cost increase includes around £30m of quarterly costs in our partner finance business, which was transferred from Barclays International earlier in the year.

Impairment for the quarter was £170m, down slightly yoy, and well below recent quarters.

Arrears rates continue to be stable.

Turning now to Barclays International.

Slide 20: Q420 Barclays International

BI income was stable year-on-year at £3.5bn, reflecting the strong performance in CIB, offset by lower income in CCP, and RoTE was broadly flat at 5.9%.

I'll go into more detail on the businesses on the next two slides.

Slide 21: Q420 Barclays International: Corporate & Investment Bank

The Corporate & Investment Bank delivered an RoTE of 6.2% in Q4, traditionally the weakest quarter of the year, up from 3.9% for last year, with strong performance across Markets and Banking.

Income was up 14% year-on-year, at £2.6bn, on a flat cost base, delivering strong positive jaws.

Markets income increased 19% in sterling, the best Q4 level since 2014, when the investment bank took its current form, and up 22% in dollars.

The full year Markets income of £7.6bn was also a high since 2014.

FICC increased 12%, with a particularly strong performance in credit.

Equities income was up 33%, with strong growth in derivatives and cash equities.

Banking fees were up 30% year-on-year, with good performance across debt and equity capital markets and advisory, following some weakness in advisory earlier in the year.

Corporate lending this quarter wasn't distorted by the volatile mark-to-market moves we had in earlier quarters. The reported income of £186m reflected limited demand for corporate lending, with further paydown of revolving credit facilities.

Transaction banking income remained depressed at £344m, with further increases in deposits more than offset by margin compression.

CIB costs were flat, reflecting tight cost control, reducing the cost to income ratio from 80% to 69%.

Impairment increased slightly year-on-year, but was well down on the previous three quarters at £52m.

We've started the year with the investment banking franchise in good shape, and are optimistic about the future.

Turning now to Consumer Cards & Payments.

Slide 22: Q420 Barclays International: Consumer, Cards & Payments

Income in CCP was down 25%, principally driven by US card balances, which were down 22% year-on-year in dollar terms.

In addition to affecting balances, lower spend volumes were also a headwind for interchange in US cards, and for payments income.

In the payments business, although volumes are down, e-commerce accounted for over 50% of volumes.

Card balances in the US ended the year flat on September in dollar terms, rather than seeing an increase from Thanksgiving and Christmas spend, so the income growth we were hoping for in 2021 is going to be tough to achieve, in the absence of significant improvement in economic conditions.

Costs were down 4%, resulting in a 64% cost:income ratio.

Impairment was £239m, well down on levels of Q1 and Q2, reflecting lower balances, with arrears rates slightly up in the quarter, but still well below the level our provisioning assumes.

Turning now to Head Office.

Slide 23: Q4 Head Office

The Head Office loss before tax was £416m, reflecting one-offs in both the income and cost lines.

The negative income includes a Q4 expense of £85m relating to the repurchase of half the outstanding Tier 2 Contingent Capital Notes. This will roughly halve the £100m or so of annual legacy funding cost in Head Office we had guided for 2021 and 2022.

The other main income elements: residual negative treasury items, and negative income from hedge accounting, will continue in 2021, and are expected to be at similar levels to the past.

That would suggest around £300m negative income in total, in the absence of a resumption of the Absa dividend.

Q4 costs of £222m were above the usual run rate of £50-60m due to around £150m of cost actions and the inclusion of a further £22m of the community aid programme we announced at the start of the pandemic.

Moving onto capital.

Slide 24: CET1 ratio increased 130bps YoY and 50bps QoQ

We finished the year with a very strong capital position. The CET1 ratio was 15.1%, up materially from 13.8% at the end of 2019, and an increase of 50 bps in Q4.

This reflected capital generation from profits across the year, regulatory support, and cancellation of the FY19 dividend at the start of the pandemic.

This strengthening of the ratio was achieved despite the increase of £11bn in RWAs.

You can see the elements broken down in the bridge on the top half of this slide.

IFRS9 transitional relief didn't move significantly this quarter, as the bulk of the impairment charge didn't qualify for relief.

In Q4, the main contributors to the increase were profits, and 30bps from the new regulatory benefit for software assets.

We're expecting this software benefit to be reversed at some point this year by the PRA, and I'll say more about the flightpath for capital on the next slide.

Slide 25: CET1 ratio flightpath to target range of 13-14%

We're happy with the headline capital ratio of 15.1%, but I wanted to remind you of some factors which will reduce the ratio in 2021, particularly in Q1, and why we are comfortable to run at a level materially below 15.1%.

We've shown at the start of this bridge a couple of easily quantifiable factors that will affect the ratio early in the year.

The proposed buyback of £700m is not reflected in the ratio and would reduce the year-end ratio by 23bps.

In addition, the temporary PVA relief brought in last year was reversed on 1 January, and the IFRS9 transitional relief reduces.

So you could think of a rebased ratio at the start of 2021 of 14.7%.

This is still well above our target range of 13-14%.

I would remind you that our MDA hurdle is currently 11.2%, and we've included the usual slide in the appendix showing how that is calculated.

Our target range is designed to allow for fluctuations in the MDA, for example if a UK counter-cyclical buffer is reintroduced.

Going forward we remain confident of generating capital from profits, although I'm not going to forecast a precise level of capital generation.

We've shown here a number of additional headwinds to the ratio that we are aware of, on top of the expected reversal of the software benefit.

The two that are most difficult to forecast are the migration of impairment into Stage 3 defaulted balances, which will not qualify for transitional relief, and potential procyclicality which could inflate RWAs. This didn't materialise during 2020 in the way we had expected, but we are likely to see some effect from credit migration during 2021.

Nevertheless we are confident that the balance of these elements will leave us with sufficient capital generation to continue distributions to shareholders, and be comfortable in our CET1 target range.

Both spot and average leverage ratios were at or above 5%.

Finally, a slide about our liquidity and funding.

Slide 26: High quality and conservatively positioned liquidity and funding position

We remain highly liquid and well-funded, with a Liquidity Coverage Ratio of 162% and Loan:Deposit Ratio of 71%.

This positions us well to withstand the stresses caused by the pandemic, and to support our customers.

Slide 27: Outlook: Diversification allowing resumption of capital returns to shareholders

So, to re-cap, we were profitable in each quarter of 2020, generating a 3.2% statutory RoTE for the year, despite the effects of the COVID pandemic, which led to significant reductions in income in the consumer businesses, and an increase of close to £3bn in the impairment charge.

I've summarised on this slide the various comments on the outlook we've made.

While the income outlook for the consumer businesses is challenging given the economic environment, the CIB is well placed for 2021 and beyond.

We continue to see the benefits of our diversified business model coming through, allowing us to take a measured approach to costs, and continue to invest in the future of the group, despite the difficult economic environment.

We have taken very significant impairment charges in 2020, but with £9.4bn in balance sheet provisions, we expect a materially lower charge in 2021.

We're distributing the equivalent of 5p per share, by way of dividend and share buyback.

Although we expect a reduction in our CET1 ratio in 2021, our starting point of 15.1% should put us in a good position to pay attractive capital distributions to shareholders going forward.

Thank you, and we will now take your questions, and as usual I would ask that you limit yourself to two per person so we get a chance to get round to everyone.

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- MREL is based on Barclays' understanding of the Bank of England's policy statement on "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)" published in June 2018, updating the Bank of England's November 2016 policy statement, and the non-binding indicative MREL requirements communicated to Barclays by the Bank of England. Binding future MREL requirements remain subject to change including at the conclusion of the transitional period, as determined by the Bank of England, taking into account a number of factors as described in the policy statement and as a result of the finalisation of international and European MREL/TLAC requirements. The Bank of England is currently conducting an MREL review, which may drive a different 1 January 2022 MREL requirement than currently proposed. The Pillar 2A requirement is also subject to at least annual review;
- future regulatory capital, liquidity, funding and/or MREL, including forward-looking illustrations, are provided for illustrative purposes only and are not forecasts of Barclays' results of operations or capital position or otherwise. Illustrations regarding the capital flight path, end-state capital evolution and expectations and MREL build are based on certain assumptions applicable at the date of publication only which cannot be assured and are subject to change.

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