

Barclays PLC FY 2014 Results**Analyst and Investor Conference Call (edited transcript)****Antony Jenkins, Group Chief Executive****Slide 2: Antony Jenkins, Barclays Group Chief Executive**

Good morning ladies and gentlemen. Welcome to Barclays. Thank you very much for coming today.

Today, Barclays is a stronger business with better prospects than at any time since the financial crisis.

It's not quite a year since I set out the new shape for the Group, and I said then that we needed to change Barclays fundamentally to meet the challenge of generating sustainable returns in a new operating environment, where capital requirements are higher and growth is harder to come by.

I said, as a result, we would no longer seek to do everything everywhere, but instead build on those areas where we have capability, scale and competitive advantage. That we would build a focused, international bank: stronger, much more balanced and run for returns.

I also set out very clear 2016 financial targets against which we – and you – could track our progress. We understood the scale of the challenge we were taking on – completely reshaping the Group as a whole, and making profound changes to the individual businesses within it.

Since then, we have been working with pace and urgency to deliver our plan across the businesses – and I am very grateful to all my colleagues for their focus and commitment through a period of extraordinary change for Barclays.

Slide 3: 2016 Transform Financial Targets

As a result of these efforts, I am pleased to report today steady performance against the measures I set out in May.

Our fully loaded CET1 ratio has improved from 9.1% at the end of 2013 to 10.5%, including the Spanish disposal completed early in January. This improvement in capital is despite further provisions in Q4 for ongoing FX investigations. Our Leverage Ratio increased to 3.8% in the final quarter, including the disposal of Spain, close to our 2016 target of above 4%. I expect these capital and leverage metrics will continue to improve, as we grow earnings and manage the Group's balance sheet in a disciplined manner, putting conduct and litigation issues behind us.

We've maintained our full year dividend at 6.5p, reflecting a payout ratio of just under 40%. We are increasingly confident in the capital position of the Group and continue to target a 40-50% payout ratio over time.

Group adjusted PBT has increased by 12% year on year, in line with our strategy of delivering a stronger, more balanced group and managing all of our businesses for returns.

We are seeing strong performance in our Core business, the future of Barclays. Adjusted ROE excluding CTA in our Core business stands at just under 11%, close to our 2016 target of above 12%. Our PCB and Barclaycard businesses continue to thrive and grow, Africa has done well on a constant currency basis, and we saw some encouraging performance in several areas of the Investment Bank.

We continued to make strong progress on cost – which I have previously described as the strategic battleground for our industry. We delivered significant cost reduction through the course of 2014, taking out nearly £1.8 billion of spend across Barclays – ahead of our plan and on track for our 2016 target.

Our run-down of Barclays Non-Core is also ahead of target, with RWAs down nearly £35 billion over the year. The progress we have made across the business in the last ten months

has been the result of our determination to focus resolutely on our strategic ambitions, while managing short term challenges.

I believe that these results show the benefit of that approach – a Barclays that is stronger, more balanced, and making real progress towards our objectives.

Tushar will now take you through the numbers in detail. Tushar.

Tushar Morzaria, Group Finance Director

Slide 4: Tushar Morzaria, Barclays Group Finance Director

Thanks Antony.

In terms of our financial performance, three things stand out. First, we've meaningfully changed the business in 2014 and at the same time improved its financial performance; adjusted PBT, EPS, and ROE, and net tangible book value are all up for the year. Second we have materially improved our capital ratios. And third, we've continued to drive down costs.

So let me take you through our Summary Financials, which are based on adjusted figures, to provide a clearer picture of underlying operating trends.

Slide 5: Summary Group Financials

We've increased Group adjusted profit before tax by 12% and attributable profit by 27%.

Our statutory profits before tax were down 21%, after taking account of conduct charges, the revision to our ESHLA portfolio valuation, which I'll talk a bit more about in a minute, and other adjusting items, leading to a small statutory attributable loss of £174 million.

Impairment improved by 29% to £2.2 billion, as we continued to manage risk carefully. And as Antony indicated, we're pleased with our cost performance. We achieved a 9%

reduction in the Group adjusted cost base bringing it down to £18.1 billion. And compared to income, which was down 8%, this gives us positive jaws. Excluding CTA, costs were down to £16.9 billion, which was below our guidance.

On adjusting items, you'll recall that we took a provision of £500 million for FX in Q3, and we increased this provision by £750 million in Q4. We've recognised a revision of £935m against the Education, Social Housing, and Local Authority portfolio or ESHLA which is in Barclays Non Core and held at fair value. That's due to changes in discount rates applied in the valuation methodology.

The revision to the ESHLA balance sheet does not impact the year-end CET1 position because there was already a significant PVA adjustment to capital in respect of these assets. The leverage ratio is also unaffected by this revision. Our additional provisions for PPI over the year were £1.27 billion, including a further £200 million in Q4. Other adjustments that we've taken through the year are shown on the slide.

After tax and minorities, including AT1 coupons, adjusted attributable profit was £2.8 billion, and that generated an adjusted EPS of 17.3 pence.

We track our progress against the 2016 targets which Antony just referred to, so I want to update you on how we've done on these in more detail.

First, Group level targets on capital, leverage and dividend.

Slide 6: Strengthening Key Financial Metrics

We continue to maintain a sharp focus on our balance sheet, and this slide shows the improvement over the year in terms of capital, leverage and TNAV.

CET1 capital has increased to £41.5 billion and RWAs of £402 billion are down 9%. Even after absorbing the additional FX provision in Q4, we increased the Group's CET1 ratio to 10.3% in the quarter. Including the sale of the Spanish business, our pro forma CET1 ratio

is 10.5% – that's 140 basis points higher than at the end of 2013. And this positions us well for achieving our target of more than 11% for 2016, and towards our end target state of 12%.

BCBS leverage exposure reduced to £1.2 trillion, giving a leverage ratio of 3.8% at year end, which also reflects Spain. That's close to our 2016 target, and in line with the regulatory minimum required of us in 2019.

Despite the conduct provisions, we have an increased confidence in the Group's capital position which has allowed us to hold the Q4 dividend at 3.5 pence, bringing the total for 2014 to 6.5p. That's equivalent to a payout ratio of just under 40%. We'll aim to increase the payout ratio to be within our target 40-50%, as we continue to build capital. TNAV also increased by 2 pence to 285 pence.

And overall, we are ending the year with a stronger balance sheet, and in good shape as we pursue our objectives.

Let me now turn to Core performance and ROE.

Slide 7: Core Business Performing Well

We delivered an ROE in our Core businesses of 9.2%, or just under 11% excluding CTA. That reflects the better balance of earnings and returns across the Group as good results from PCB, Africa Banking, and Barclaycard mitigated the effect of a transition year within the Investment Bank. We achieved this ROE on a stronger Core equity base which increased by £6 billion over the year.

Our Core businesses generated a PBT of £6.7 billion, and that's up 3%, as we saw strong improvements in impairment and operating expenses. We increased profits in PCB by 29%, in Barclaycard by 13%, and Africa Banking profits were also up 13% on a constant currency basis. The performance in the Investment Bank was impacted by the effects of transitioning

the business to a new structure, but it ended the year on an encouraging note with profits of £1.4 billion.

On costs we made good progress. Total operating expenses for the Core were down 6%, despite an increased CTA, and we remain focused on further reductions in 2015 towards our target of £14.5 billion ex CTA for 2016.

Core attributable profit was £3.9 billion. That generated a Core EPS contribution of 24 pence.

Slide 8: Core Income – Growth In NII

Core income growth outside the IB has come from positive movement in our Net Interest Income, as both Net Interest Margin and average customer assets have increased. NIM reached 408 bps for the year, up 6 bps. And that was despite some NIM dilution in Barclaycard as we continued to grow and expand the geographic mix of this business. Average customer assets increased by 3% to £280 billion. Altogether, this led to an increase in Net Interest Income from these businesses of 4%.

And while there are some competitive pressures on asset margins, we would at this stage expect margins to remain broadly stable into 2015. Our Core businesses are characterised by strong asset quality, as we grow without compromising on risk.

Slide 9: Continued Strong Asset Quality

As you can see on this slide, Core impairment reduced by 8% to £2.0 billion. This was despite a one-off increase in Barclaycard impairment in Q4, which we mentioned in Q3, as we updated our models to enhance coverage on forbearance balances. We continue to see stable credit risk metrics, and we expect conditions to remain broadly stable in the near term.

I want to turn now to the individual businesses, starting with Personal and Corporate Banking.

Slide 10: Personal And Corporate Banking

PCB is our largest division with PBT of £2.9 billion, up 29%, and the most allocated capital at just under £18 billion. It delivered an ROE of nearly 12%, and that's almost 16% ROTE.

At the heart of our strategy for PCB is our goal of maintaining leadership in technology. The number of personal unsecured loans originated through digital channels has increased by over 80% YoY, and this now accounts for [around] 35% of all personal unsecured lending. Payment volume through our Pingit app grew almost threefold in the year.

Turning now to asset growth. Our share of mortgage stock has reached 10.1%. And we've grown corporate balances by 4% year on year, outperforming the sector.

Overall, PCB income grew to £8.8 billion, and that was driven by NII from savings and mortgages, giving a NIM of 300bps, partially offset by lower fee income. Impairment was down 22%, with some releases and recoveries in corporate lending. We reduced total operating costs by 7%, reflecting headcount and other operational savings, including net branch closures of 72.

And we believe there are significant opportunities in PCB from steady income growth combined with ongoing cost reductions, as you can see on this slide.

Slide 11: PCB – Positive Jaws Delivering Reduction In CIR

The business is already delivering positive jaws, and the cost to income ratio, excluding CTA and bank levy, has already reduced from 65% at the start of 2013 to the current level of 55%. And we expect positive jaws to continue to move this downwards, even factoring expectations of a “lower for longer” UK interest rate environment.

Now, Barclaycard.

Slide 12: Barclaycard

We achieved growth across all Barclaycard businesses and geographies. We increased income by 6% to £4.4 billion, despite some headwind from year-on-year dollar weakness. We held costs broadly flat while at the same time continued to invest in the business for growth.

We grew our customer base by 3.6 million and increased payments processed by 9% to £257 billion. Balances also grew, with total loans reaching £36.6 billion at year end, and that's up 16% year-on-year. Growth was particularly strong in the US, where loans and advances increased by 36%, with customer growth of 25%. Impairment was up 8% mainly due to an update to enhance our coverage on forbearance.

And overall, Barclaycard increased PBT by 13% to £1.3 billion, and it generated an ROE of 16%. We continue to see opportunity for further growth in this business, across all geographies, including the UK.

Next Africa Banking, which is best understood on a constant currency basis. Here PBT was up by 13% on a constant Rand basis.

Slide 13: Africa Banking

That improvement was driven by 7% income growth and lower impairment – across all our Africa businesses, as we started to see the benefits of increased investment to support our strong market positions. We are top 4 by revenue in five of our largest markets – South Africa, Botswana, Zambia, Ghana and Kenya, we've increased our share of revenues from outside South Africa to over 20%.

Good growth was shown in Retail and Business Banking, with improving revenue momentum in the South Africa franchise reflecting progress on our turnaround strategy there. While our Retail and Business Bank generates profits over 60% of Africa Banking's profits, the strongest growth was in Corporate and Investment Banking. That reflected improved IB trading performance across Africa and strong growth in Corporate Banking outside of South Africa.

Increased costs reflect inflation and investment in key growth and savings initiatives, and ROE nevertheless increased from 8.1% to 9.3%. Return on average tangible equity, which excludes the goodwill we hold on the Group balance sheet, was nearly 13%.

Sterling results for Africa Banking were impacted by Rand depreciation, but the underlying view is encouraging.

Let me turn now to the Investment Bank, where 2014 was a year of transition, as we repositioned the business in line with the Strategy update.

Slide 14: Investment Bank

Despite these significant changes, the Investment Bank delivered record results in Banking on a US dollar basis. We finished 2014 ranked #6 for overall Investment Banking Fees in the US and #2 in the UK, up from #3 in the previous year. I think these are good indicators of the underlying strength and resilience of the franchise, even in a challenging market environment.

Investment Bank income declined 12% in 2014, but the Q4 performance was broadly in line with our peers, with a 7% decrease versus the prior year. And in an uncertain income environment, managing the cost base, including compensation costs, has been a key focus for us. We reduced overall costs by 6%, and excluding CTA, by 9%. And cost is the key lever we have to improve the ROE, from the 2.7% 2014 result.

And before expanding on the work we are doing to reduce costs, I'd like to briefly cover our Q4 performance and Q1 outlook. Overall Banking income in the final quarter was flat to Q4 2013, and our Advisory team is working on some high profile transactions, including advising Friends Life on its acquisition by Aviva, the largest UK insurance M&A transaction for around 15 years. In our other home market, we're acting as M&A adviser to Staples on its acquisition of Office Depot.

In DCM, although Q4 income was down on the prior year, we maintained our #2 position in Dealogic's All International Bonds league table for the whole of 2014, and this has increased to #1 for 2015 YTD.

Turning now to Markets, starting with Equities. Income was negatively impacted in Q3 by clients who suspended or reduced activity with us as a result of the Dark Pool allegations. But the business recovered in Q4, and income was higher by 9% vs Q3 as client activity picked up, and it was up 2% versus Q4 2013. Macro income fell 14% on Q4 2013 driven largely by a difficult rates trading environment. In Credit, performance was impacted by declines in distressed credit and US high grade, and a general tightening in credit spreads and bid/offers. This performance also reflects a decline in issuance volumes, our simplified credit business should increasingly track primary trends.

Based on current trends and a strong Banking pipeline, we expect Q1 2015 income for the Investment Bank to be well ahead of Q4 and approaching that of Q1 2014.

Turning now to IB costs, I want to take you through the good progress we have made in some more detail.

Slide 15: IB – Downward Trend In Compensation Charge

We continued to reduce non-compensation costs with a 7% decline ex CTA and Bank Levy, or an 11% decline excluding litigation and conduct as well. These costs will continue to reduce, driven by opportunities in Operations and Technology, such as consolidation of infrastructure platforms, decommissioning of applications, and improving automation.

While total compensation costs reduced 9%, I think this understates the real progress we have made, when you take into account the timing of the P&L treatment, as shown on the right-hand side of the slide.

In terms of variable compensation, bonus awards were down 24%. Even allowing for the switch to Role Based Pay, the reduction is significant. Role Based Pay, which is charged in the year of the award, added approximately £200 million to the 2014 “salary” cost, and it masked an underlying reduction of 13% in basic salary expense. As you know, deferred bonuses do not appear in the P&L until later years, and so the 2014 numbers include £854 million for deferred bonuses awarded in previous years. It’s hard therefore to see the full effect of the changes we have made in the 2014 numbers, but we expect the £854 million for deferred bonuses to fall by around £160 million in 2015.

And we’ve significantly reduced headcount during the year with a net reduction of 2,100 across Core IB – and 2,600 including the Non-Core element.

So I’m optimistic about our ability to deliver further cost reductions in the IB.

Now, Non-Core, which I want to take you through in some detail given the focus we have had on its rundown, and I think we’ve made good progress here.

Slide 16: Barclays Non-Core – Continued Shrinkage And Capital Return

Barclays Non-Core has reported significant declines in RWAs, leverage and equity allocation since we established it in May. RWAs fell by 32% over the year to £75 billion, and allocated equity reduced by £4.1 billion to £11 billion.

Income always tends to move faster than cost, but a very significant reduction in impairment means the Non-Core loss before tax was down 24%, with attributable loss down 43%.

As a result of reduced losses and lower [allocated] capital, the Non-Core drag on Group ROE was 4.1%, compared to 7.2% in the prior year.

And while the majority of the losses associated with the Spain sale have been recognised as an adjusting item in 2014, I'd just like to remind you that we expect about £100 million of further losses in Q1, as a result of currency translation, which we announced at the time of the transaction.

Slide 17: Barclays Non-Core – Income And Cost Profile

Non-Core income fell by 54% year on year, but given the acceleration of run down, I believe Q4 is a better indicator of the likely future run rate than the first three quarters. However, the quarter-by-quarter income line will remain lumpy as it may reflect losses on smaller asset disposals. Looking to 2015, as income falls away, our focus on reducing the Non-Core cost base becomes even more important.

Costs were down 29% to £2 billion with a significant reduction in CTA and with good progress on underlying cost reductions as shown in the quarterly breakdown. Of the Q4 cost base, around £240 million annualised cost drops out in 2015 with the Spain disposal, and with the rest split approximately 50/50 between retail and other assets.

And we expect to achieve further cost reductions in 2015. And, as we've indicated before, we expect to keep the returns drag to between 3% and 6%, and continue to target less than 3% in 2016.

Slide 18: Non-Core – Outperforming On RWA Reductions

Reducing the capital tied up in Non-Core and returning it to the Core is as important to our strategy as managing the operating losses, and we've made excellent progress on this to date. Since the start of the year, we've reduced Non-Core RWAs by £35 billion, and that's

ahead of plan, with strong progress across businesses, derivatives, and securities and loans. Q4 saw continued reductions in RWAs with sales of a principal business, base metals and commodities businesses, and some of our interests in natural gas portfolios.

Leverage exposure in Non-Core has also reduced significantly, with the BCBS measure down to £277 billion, and that's also well ahead of plan, primarily driven by lower SFTs and derivative exposures. As a result of the work so far, the equity allocated to Non-Core has been reduced by £4.1 billion to £11 billion.

Finally, let me cover costs at the Group level. We are pleased with our cost performance this year.

Slide 19: Operating Expenses Significantly Reduced

We delivered Costs excluding CTA inside our £17 billion target for the year, while CTA also came in slightly better than anticipated. Of the £1.8 billion reduction, Transform savings were largely driven by FTE reductions from Investment Bank front office restructuring, branch network transformation, and further restructuring of our European businesses.

We're leaving unchanged our guidance for 2015 cost of £16.3 billion at a Group level. That incorporates headwinds from Sterling / US dollar exchange rates, based on current prevailing FX rates. Our guidance for CTA is also unchanged at £700 million for 2015.

Slide 20: Financial Highlights

So as I said at the start, overall I am encouraged by the significant progress we've made in 2014. We've improved financial performance, we've strengthened our capital ratios, and we've continued to drive down costs. But of course we still have more work to do.

But with that, let me now hand you back to Antony to conclude.

Slide 21: Antony Jenkins, Barclays Group Chief Executive

Thank you very much, Tushar.

In 2012, when I became Group CEO, our issues were not just reputational – we also faced challenges on our capital strength, our structure – and our over-dependence on the Investment Bank. These results show how far we have come in building a stronger business delivering sustained performance.

But our ambitions are greater: to make Barclays the “Go-To” bank for all of our stakeholders. And today we’re publishing for the first time a detailed set of performance metrics against our Balanced Scorecard – the concrete measures which define our vision for Barclays and against which I and my colleagues are held accountable.

Slide 22: Balanced Scorecard Commitments

As you can see, we’ve made steady progress on that wider agenda.

We have performed strongly on our Citizenship measures, and you’ve heard about the progress we’ve made on our Company measures. On Conduct, we’re on track. We’re working hard to embed the new framework and approach across all our businesses, and there is emerging evidence that the progress we are making in this area is feeding through into the external perceptions of Barclays.

We have not, however, made the progress we would like with our Customer and Client and Colleague engagement scores. This is perhaps understandable given the scale of change we have made to the businesses in 2014, and I expect to see a significant improvement in both areas in 2015.

More broadly, I’m proud that we have continued to increase our contribution to the real economy. We lent over £40 billion to UK households in 2014, up from £34 billion in 2013.

We delivered £14 billion of new and renewed lending to UK SMEs, and, since 2012, we have put in place £2.5 trillion of financing for global businesses and governments, supporting growth and the recovery.

Slide 23: Financial Highlights

Overall, Barclays today is fundamentally different and much stronger, and that is a great tribute to the hard work and commitment of my colleagues across the Barclays Group. While we are encouraged by the progress we have made, we are not complacent – we have much more to do to build the Barclays we want, and of course, challenges remain.

Outstanding conduct issues in particular have cast a shadow over our business for too long. Let me be clear on the foreign exchange issue in particular: I regard the behaviour at the centre of these investigations as wholly incompatible with our values. And I share the frustration of shareholders and colleagues at the impact that conduct issues continue to have on our business.

Their resolution is an essential part of our plan for Barclays. So I expect to make significant headway this year in reaching final settlement of a number of these issues – while also maintaining progress towards our 2016 targets, particularly on capital strength and dividend.

Meeting our capital target – putting the financial strength of the business beyond question – will give us much greater flexibility in how we apply the proceeds of our strategy for the benefit of our shareholders – including investing in the future growth of our Core businesses.

I am proud of Personal and Corporate Banking, Barclaycard, our Africa business and our Investment Bank. But none of them have yet realised its full potential, particularly as we see the benefit of technological transformation in our industry. As we continue to invest in this area, our goal is to simultaneously enhance the customer and client experience, take out cost, improve controls, and open up new products, services and markets for the digital age.

As you know, I believe we are at the start of a period of rapid and profound disruption in our industry, driven by technology, and I believe that at Barclays we are well placed to win in this new world. And indeed, as Tushar set out, we are already leading our competitors in this area.

So, while there is more to do, I'm encouraged by our performance so far. As a result of the actions we have taken, Barclays today is stronger and more balanced business. We have a clear plan, and we will look to accelerate progress against it wherever we can.

I am confident that 2015 will be a year of further delivery.

And with that ladies and gentlemen, Tushar and I are very happy to take your questions.

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