Barclays PLC H122 Results

Analyst and Investor Conference Call Speech

C.S. Venkatakrishnan, Barclays Group Chief Executive

Anna Cross, Barclays Group Finance Director

Slide 2: C.S. Venkatakrishnan, Barclays Group Chief Executive

Good morning, everyone.

Slide 3: Statutory PBT of £3.7bn and RoTE of 10.1% in H122

I am pleased to be able to report a strong first half of 2022 for Barclays.

Our Profit Before Tax was £3.7bn, leading to Attributable Profit of £2.5bn. This came after absorbing net impact of around £580m over the half-year, relating to the over-issuance of securities under our US shelf registration statements.

The Group income was £13.2bn. Excluding the income benefit from hedging arrangements related to managing the impact of the over-issuance, Group income was £12.4bn, up 10% year-on-year.

Statutory Group Return on Tangible Equity was 10.1%.

We continue to focus on costs, particularly given inflationary pressures.

We are also focused on the readiness of our balance sheet to withstand macroeconomic challenges. We remain mindful that we need to continue to support customers and clients through an uncertain economic period.

We remain well capitalised, with a CET1 ratio of 13.6%. This is comfortably within our target range of 13-14%.

It remains one of my key priorities to target the return of excess capital to shareholders.

I am pleased to announce a half year dividend of 2.25p per share, as well as an intention to initiate a further share buyback of up to £0.5bn. This is in addition to the £1bn share buyback which we announced at Full Year, and which we have nearly completed.

Slide 4: Update on Over-issuance of Securities

Before Anna and I go into more details on earnings, let me provide a brief update with respect to the over-issuance of securities under our US shelf registration statements.

We are making good progress to resolve this matter. We have agreed the terms of the rescission offer for affected customers, which we announced on 25 July and which will be effective on 1 August.

We continue to engage positively and constructively with the Securities and Exchange Commission, as we have done since we discovered and reported this item to them.

In addition to an internal review, I have commissioned a counsel-led external review of the over-issuance matter. This will report to the Board shortly. We will consider all its findings carefully and take appropriate actions in response.

Anna will cover the financial impact in more depth, but we expect total H1 impact, net of tax, to be around £580m, including an estimated monetary penalty.

We have made considerable progress improving our controls since 2016, so the fact that this over-issuance matter occurred in the first place is particularly disappointing. The necessity of a strong controls culture has never been clearer, and we will strive ceaselessly to improve it.

Slide 5: Another strong performance in Q222 across all operating businesses

Returning now to our performance, I would like to mention one or two highlights from the second quarter.

Profitability was strong, with Q2 Profit Before Tax of £1.5bn.

Return on Tangible Equity was 8.7%. This includes double digit returns in our consumer businesses, Barclays UK and Consumer, Cards, and Payments. Returns in the Corporate and Investment Bank were impacted by the elevated litigation and conduct charges this quarter.

I am particularly pleased that we saw continued income growth across all three of our operating businesses.

Income in Barclays UK was up 6%, Consumer Cards and Payments was up 29% and the Corporate and Investment Bank was up 10%, excluding the impact of over-issuance. CIB income also included a particularly strong performance in FICC, which was up 52% year-on-year in US dollars.

Slide 6: Broad income momentum with H122 Group income up 10% YoY

Across Barclays, H1 income was up 17% year-on-year. Excluding the income from hedging arrangements related to the over-issuance, income was up 10%.

The drivers of this growth are varied, illustrating how our diversification strategy is working for the Group. This is diversification at all levels: geographically; in terms of customer type; and in the revenue streams within each of our individual businesses.

For instance, Barclays UK has seen an increase in transaction-based revenues, as well as a tailwind from rising interest rates.

In Consumer Cards and Payments, we have benefited from balance growth in our US cards portfolio, as well as a pick-up in Payments transactions activity.

In the Corporate and Investment Bank, Global Markets income grew across the half-year, offsetting a slower period for Banking. This is the result of the investments we have made in our client offering and in the digitisation of our trading platforms, allowing us to support our clients during a period of heightened volatility.

We have also benefitted from growing client wallet share in Global Markets, while the interest rate environment has helped the Corporate Bank.

As a result, Barclays has been able to demonstrate steady revenue progress, even in an uncertain economic and markets environment.

Slide 7: Inflation uncertainty but GDP growth and unemployment resilient

Our focus remains on supporting our customers and clients through this period of economic uncertainty.

The market remains volatile in interest rates, equity prices and credit spreads. There is anticipation of a change in the real economy which we have not yet seen. We remain alert to signs of weakness, although we start from historic low levels of unemployment and credit distress.

Slide 8: Barclays is prepared to navigate this uncertainty

I am confident that Barclays' diversification and balance sheet readiness puts the Group in a good position.

We are alert to the pressure that the rising cost of living is having on our customers and colleagues. We have adopted a range of measures to help them, and we will look to do more.

Each month, we assess millions of customer accounts and proactively contact anyone who might be showing signs of financial difficulty. Our frontline staff are trained to support vulnerable customers, including those struggling financially.

Customers can also use the Barclays app for financial assistance services, including access to an affordability assessment and more manageable repayment options.

We are mindful of the impact on colleagues as well of this rising cost of living. We recently increased pay for 35,000 of UK-based staff in customer facing, branch and junior support roles, providing a £1,200 increase to their annual pensionable salaries.

We have taken steps to manage our balance sheet conservatively. Our lending criteria remain careful, and we have recently reviewed and updated our affordability models in light of current circumstances.

We are supporting our clients to manage their risk, and monitoring customer behaviour as we keep an eye on inflationary pressures in the market.

As I have already outlined, we also continue to see the benefits of diversification.

Finally, we are maintaining robust credit card coverage ratios as balances rise. We maintain Group balance sheet provisions of £6.0bn, including post-model adjustments of £1.3bn.

Slide 9: Highlights across each of our three strategic priorities

At Year End, I outlined our three strategic priorities for the bank. These were to deliver next-generation consumer finance, sustainably grow our CIB and capture opportunities as the world transitions to low-carbon.

Across the first six months of this year, we have continued to invest in these priorities.

This includes two major investments in our consumer franchise, which will deliver higher yielding balances and access to new customers.

The first was our acquisition of the Gap US credit card portfolio. This completed at the end of the second quarter, adding 10 million accounts and doubled our US footprint. It will help us diversify our US cards business into retail from its historic weighting to travel, and it represents a significant expansion of our online platform.

The second was our acquisition of specialist mortgage lender called Kensington Mortgages, which is subject to regulatory approval. This will give us access to the specialist residential mortgage market in the UK.

As the Barclays mobile app turns 10 years old, it is rewarding to see that more than 10 million customers are now using the app. Last year we added over 100 features and customer experience enhancements to help our customers to manage their money in an accessible and easy way.

This year will be no different and we have already introduced a number of new features to the app. For example, our new Async chat function means we are seeing customers resolve around 40% of their queries through self-service options.

We continue to invest in our Corporate and Investment Bank to maintain our ranking of number 6 for both Global Markets and Banking.

In Global Markets, our client wallet share continues to increase. Between 2018 and 2021, we grew our share by 105 basis points, making us a Top 5 gainer for the period and the only non-US bank in that group. We also continued to see good momentum in leading client revenues in H1 this year.

Finally, we are expanding our sustainable finance product offering.

During the half-year, we acted as lead manager on Austria's inaugural €4bn Green Bond, as well as the world's first Green sovereign inflation-linked bond transaction for the French Republic. This continues to cement our position as a leading primary dealer in European government bonds.

We have also completed a further £700m of Green Home Mortgages this half-year, meaning we have now completed £1.7bn since 2018.

Slide 10: We continued to advance our ESG agenda in H122

We have made good progress to advance our ESG agenda in 2022, more detail on which is available in our dedicated presentation online.

I was particularly pleased that the publication of our climate strategy, targets and progress – our so called Say on Climate – received support from shareholders at our Annual General Meeting in May.

Slide 11: Strong H122 profitability, continue to target a RoTE >10% in 2022

So, in conclusion, Barclays has had a strong first half of the year.

We maintain the double-digit ROTE that was a feature of our performance throughout 2021, and we continue to target a statutory ROTE greater than 10% for 2022.

We have seen broad-based income growth across all our main operating businesses, underlining the value of the investments we are making to grow Barclays and deliver attractive returns.

And we are continuing to return excess capital to shareholders. I am pleased to have been able to announce a half-year dividend of 2.25p and an intention to initiate a further buyback of up to £0.5bn. This will continue to be a priority for me as Group Chief Executive.

While I am very pleased with the performance we have shown, I am conscious that we live in unusually uncertain times. This drives our conservative approach to managing our balance sheet, our robust provisions, and our watchful stance on continued weakness in the economy.

With that, thank you very much and let me now hand over to Anna.

Slide 12: Anna Cross, Barclays Group Finance Director

Thank you, Venkat, and good morning everyone.

Slide 13: H122 Group highlights

For H1, our broad-based income growth partially offset the increase in costs, which reflected an elevated level of litigation & conduct charges.

Impairment remains low, reflecting the quality of our books and level of provisioning.

As a result, we were able to report an EPS of 14.8p, generating a statutory RoTE for the half of 10.1%.

Today, I want to focus on three themes: our continued revenue momentum, our focus on costs given inflationary pressures, and our readiness for any macroeconomic deterioration.

Before I do that, I will give you a short update on our progress on the over-issuance of securities under our US shelf registration statements.

Slide 14: Overview of financial impacts from Over-issuance of Securities

We flagged previously that the cost of the rescission offer in relation to the over-issuance would be sensitive to equity market movements, but also that we had hedging arrangements in place to mitigate the impact substantially.

Whilst the net impact post-tax on the Q2 income statement is £176m, the gross impacts on the income and cost lines are significant, as markets have fallen sharply in Q2.

The hedging income is £758m, and is in Equities in CIB, and the increase in the estimated cost of rescission is £984m within litigation & conduct costs.

We have announced that the rescission offer will complete in Q3. Whilst there may be some movement in the final gross effects, we don't expect material changes to the net impact.

We have also progressed our discussions with the SEC in relation to a potential monetary penalty, and we've taken a charge of £165m in Q2 in anticipation of this, giving a total net impact on Q2 of £341m from the over-issuance.

Slide 15: Q222 Group highlights

In Q2, we achieved a statutory RoTE of 8.7%.

Income was up 24%, or 10% excluding the hedging arrangements, while operating costs, which exclude L&C, were up just 3%. So the operating jaws were significantly positive.

Total costs reflected both the further over-issuance provisions, and a charge of £165m relating to settlements in principle in respect of industry-wide devices investigations.

The CET1 ratio ended the quarter at 13.6%, and that's depressed by a 19bps temporary effect of holding the hedge RWAs.

This remains above the mid-point of our target range, and we are announcing a further share buyback of up to £500m, and a half year dividend of 2.25p per share.

TNAV increased 3p in the quarter to 297p per share, as the 6.4p of EPS outweighed the net movement in other reserves.

I'm now going to focus on the three themes of revenue momentum, cost management and our readiness for any macroeconomic deterioration, before I summarise the Q2 results of the individual businesses.

Slide 16: Broad-based drivers of income momentum

Q2 continued the broad-based income momentum of Q1 and this slide highlights some key drivers.

First, loans and advances have grown year-on-year by 14% overall, matched by deposit growth of 14%.

Second, increased economic activity has driven transactional fees across consumer and corporate businesses.

Third, whilst the market environment for primary issuance remains challenging, that same environment has driven high levels of client activity across both financing and trading in the markets businesses.

Finally, we have a tailwind from rising interest rates, which impact product margins across our franchises, and increase the gross income from the structural hedge.

We flagged the latter in Q1, and are benefiting from the recent increase in the structural hedge and the roll into higher long rates, with Q2 gross hedge income of £501m, an increase of £123m on Q1.

Slide 17: Income, 10% growth YoY

Q2 income growth was 10% excluding the over-issuance hedging.

In the CIB, our diversification helped to generate 10% growth in income, excluding the benefit of the hedging arrangements.

The stand out performance was Markets where income increased 31% in sterling.

FICC revenues were up 71%, reflecting increased client flow in Credit and Macro. Bid/offer spreads remain attractive, and we have managed risk well. As in Q1, we have helped our clients reposition themselves in a volatile rate environment.

Equities revenues were down year-on-year excluding the over-issuance hedging. However, we don't judge success on single quarters, and we are happy with the continued development of our franchise in trading and financing, and increases in institutional client wallet share over recent years.

Investment banking fees were down 37% year-on-year, reflecting primary market conditions. Advisory was up 8%, and the deal pipeline remains strong.

Corporate income was up 24%, with strong growth in Transaction Banking more than offsetting the Corporate Lending income expense.

The latter reflected marks we took on specific leverage finance deals and the cost of macro hedges, as we prudently manage our leveraged finance pipeline.

Income in CCP increased 29%, reflecting growth across all three constituent parts.

In international cards, income was up 34%. US net balances grew by $6.1bn, year-on-year, including $3.3bn from the Gap back book, and significant organic growth, continuing the momentum in the business.

In payments, transactions turnover was up 10% year on year, driving income growth of 35%, which was 10% up on Q1.

Barclays UK grew income by 6%, predominantly in personal banking, where continued deposit growth, and a strong tailwind from rate rises, are offsetting very competitive mortgage margins.

Barclaycard balances were broadly flat year-on-year, and marginally up quarter-on-quarter, as we managed the income/risk trade off carefully, given the economic outlook.

Looking now at costs.

Slide 18: H122 delivered positive operating cost: income jaws

We manage our statutory costs, including litigation & conduct charges, but the gross impact of the over-issuance risks obscuring our underlying cost control.

In this inflationary environment, we are particularly focused on operating leverage.

To that end, it's helpful to start by looking at the cost:income ratio excluding the effect of the over-issuance charges, which showed positive underlying jaws.

Income growth excluding the hedging arrangements improved the ratio by 4.4%.

Given our dollar profitability, FX also improved the ratio, as did the reduction in structural cost actions.

This gives us the headroom to invest in the business, and absorb inflation and other L&C charges.

Together these factors reduced the ratio to 62%, two percentage points better year-on-year.

The net effect of the over-issuance took the ratio back to 69%, but we do view the level of L&C in H1 as exceptional, and are encouraged by the trend in the underlying cost:income ratio.

We continue to face inflationary pressure, but seek to manage the cost investments with efficiency savings, and remember that inflation does have a positive effect on nominal income.

Overall we continue to target a cost:income ratio of below 60% over the medium term.

We'll look at the cost trajectory in more detail on the next couple of slides.

Slide 19: Costs, H122 operating costs (which exclude L&C) +2% YoY

The chart on the left shows that the rise in H1 costs was mainly attributable to the increase in L&C charges, excluding which, costs were up just 2%.

We reduced structural cost actions significantly, while increasing investment spend within base costs, which were up by 8% excluding L&C.

We've shown on the right hand side some of the factors behind this increase of £0.5bn, of which £0.3bn was the result of inflation and FX movements.

However, I would also highlight the deliberate increase in investment spend, which is partly funded by a further increase in efficiency savings.

As you would expect, they are closely aligned with the 3 strategic priorities Venkat has highlighted, including Gap, and areas of the CIB where we see sustainable growth opportunities.

Of course it also reflects the business growth we are enjoying already, and enhanced technology, cybersecurity and fraud detection.

Looking next at our updated cost flightpath.

Slide 20: FY22 costs expected to be around £16.7bn

On the left you can see our cost progression by quarter, split by business.

Q2 costs excluding L&C were up 3% year-on-year, focused on investment for growth in CCP and CIB.

The strength of the dollar, combined with the increased L&C charges are the main factors behind our updated cost guidance.

At Q1 our guidance for statutory costs was around £15bn for the year. This assumed a dollar rate of $1.31 to £1. We were also not anticipating this level of L&C in Q2, although we are pleased to have made progress in resolving these matters.

I would highlight that a strong dollar is a net profit tailwind and that the additional rescission costs are substantially offset in income.

Assuming an average dollar rate of $1.23 for the second half, we now expect total operating expenses of around £16.7bn for 2022.

I'm not going to give absolute cost guidance for 2023. We will continue to manage the trade-off between cost efficiencies and investments, and we would expect L&C to be materially lower next year.

Of course, the full year effect of inflationary pressure will be a headwind in 2023, but I would also remind you that we are investing in future income growth, for example with the Gap partnership and the proposed Kensington acquisition.

Moving on to impairment.

Slide 21: Impairment, Q222 charge of £0.2bn, reflecting lower unsecured lending balances and maintained appropriate coverage ratios

The net charge for the quarter was £200m, compared to a release last year.

A lot of factors feed into this net charge, so I want to focus first on our risk experience and the quality of our portfolios.

Delinquency rates in the businesses remain stable at low levels, with 30-day arrears in UK cards at 1.0% and in US cards at 1.4%.

We continue to track customer and client behaviour very carefully, given heightened concerns over an affordability crisis, in order to identify early warning signs.

We have not yet seen worrying indicators, and payment rates continue to be high, as customers have reacted rationally to the economic environment.

As a result, card balances in both the UK and US are down on pre-pandemic levels on a local currency basis, although the latter have started to grow again this quarter, and we believe that the quality of these books is higher than before the pandemic.

As a result, despite the macroeconomic uncertainty, we are comfortable with our coverage levels, with UK cards for example at 10.9% and US cards at 8.4%.

Our total impairment allowance was £6.0bn at the end of the quarter, of which £1.3bn represents post-model adjustments, or PMAs, as shown on the next slide.

Slide 22: Retaining management adjustments due to uncertainty

The macroeconomic variables, or MEVs, we have used at Q2 for modelled impairment are based on consensus forecasts. However, we are conscious of concerns that there could be further downside credit risk.

Therefore, we are retaining significant PMAs, totalling £1.3bn.

As an illustration, I would also point out that when we model impairment using the MEVs for the "downside one" scenario, the implied increase in modelled impairment is £0.5bn, which is significantly less than the PMAs for economic uncertainty we are still holding.

Taken together with our coverage ratios, this supports our expectation that we will continue to have quarterly impairment charges below the pre-pandemic levels in coming quarters.

Slide 23: Q222 Barclays UK

The 6% growth in BUK income was accompanied by broadly flat costs, delivering strong positive jaws.

The BUK RoTE was 18.4% and we're feeling positive about momentum in the business.

Before I go onto Barclays International, a few words on margin expectations for BUK,

The NIM for the quarter was 271bps, up 9bps on Q1, as we saw benefits from rate rises.

The expectation for further rises has increased since Q1, so despite the pressure on mortgage margins and the expectation of higher pass-through on later rate rises, we're upgrading our guidance for the full year to a range of 280bps to 290bps, and we're now assuming a base rate of 2.5% by year end.

Slide 24: Q222 Barclays International

Costs and income for Barclays International included the elevated L&C charge for the quarter, and the income from the hedging arrangements related to the over-issuance.

Despite the negative net effect from these, strong performance across the businesses delivered a RoTE of 8.4%.

I'll go into more detail on the next two slides, beginning with the CIB.

Slide 25: Q222 Barclays International, Corporate & Investment Bank

Income excluding the hedging arrangements was up 10%, and was up 35% on a statutory basis.

Excluding L&C, operating costs increased by 15%, driven by investment in talent, systems and technology to support income growth initiatives, and the impact of inflation.

Overall the CIB generated a RoTE for the quarter of 7.1%, and without the effects of the over-issuance, this would have been 11.4%.

Turning now to Consumer, Cards & Payments.

Slide 26: Q222 Barclays International, Consumer, Cards & Payments

Income in CCP increased 29%, reflecting growth across International Cards, Payments and the Private Bank.

Costs increased by 11%, delivering strong positive jaws.

The impairment charge was £144m, compared to a small release last year. This reflected an increase in US card balances, including the acquisition of the Gap portfolio in late June.

The RoTE was 17.8%.

Turning now to Head Office.

Slide 27: Q222 Head Office

The income expense of £132m included a £42m loss on sale from the partial disposal of our stake in Absa, and the loss before tax for the quarter was £180m.

Before I move onto capital, a quick summary of our liquidity and funding.

Slide 28: High quality and robust liquidity and funding positions

We remain highly liquid and well-funded, with a Liquidity Coverage Ratio of 156% and a Loan:Deposit Ratio of 70%.

Finishing with capital.

Slide 29: Q222 CET1 ratio of 13.6%

The CET1 ratio ended the quarter at 13.6%, comfortably within our target range of 13-14%.

Our capital generation from underlying profits was strong, contributing 42bps. This excludes the effect of the over-issuance, which we've called out separately on the bridge.

The net reduction from 13.8% in the quarter was the result of a number of factors.

Over time, increases in interest rates are a tailwind to profitability, but in the quarter, the effect on reserves caused a headwind of 17bps, principally through the fair value effect on bond holdings.

The over-issuance had an overall impact of 17bps in the quarter, from the net loss of £341m, including the estimated SEC monetary penalty, and the temporary increase in RWAs associated with the hedging arrangements.

Other factors increasing RWAs were £2bn for the Gap portfolio, and investment in business growth, particularly in CIB.

There was a £9bn RWA increase from FX movements. This had little effect on the ratio, due to its positive effect on the currency translation reserve.

We've shown on the right-hand side the effects of the further share buyback, which will come off capital in Q3, and the removal of the RWAs on the over-issuance hedging arrangements, which together would be a small net positive.

Looking at our capital requirements,

Slide 30: 13-14% CET1 ratio target continues to provide appropriate headroom above evolving MDA hurdle

Our MDA hurdle is 10.9%, so we have comfortable headroom at current levels.

The Bank of England expects the introduction of the counter-cyclical buffer at year-end to be followed by a further increase in July next year.

This would take our MDA to 11.9%, assuming no offset from reductions in Pillar 2a requirements.

Going forward, we remain confident in the organic capital generation of the Group and our capital ratio target range remains 13-14%.

Finally, on leverage, our spot leverage ratio was 5.1%, and the average UK leverage was 4.7%.

Slide 31: Outlook

So, to summarise,

We reported statutory earnings per share of 6.4p for Q2, and generated an 8.7% RoTE, despite elevated litigation & conduct charges in the quarter.

We've made considerable progress against resolving the over-issuance of securities in the US, and we have confidence in the continued revenue momentum across all of our businesses.

We are well provisioned in readiness for potential deterioration in the macroeconomic environment, and expect the run rate for impairment to be below pre-pandemic levels in the coming quarters.

We are particularly focused on the cost trajectory, given inflationary pressures. Given FX movements and the Q2 L&C charges, we have update our cost guidance for the year to around £16.7bn.

Overall the business performance is robust and we're focused on delivering our target of double-digit RoTE this year, and on a sustainable basis going forward.

Our capital ratio remains strong, and we are confident of being able to invest for future growth and delivering attractive capital returns to shareholders.

As a result, we have announced a half year dividend of 2.25p and a further share buyback of up to £500m which we expect to begin shortly, following completion of the current buyback of £1bn.

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 around 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 December 2021, updating the Bank of England's June 2018 policy statement, and its 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, along with international developments. The Pillar 2A requirement is also subject to at least annual review;

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Subject to Barclays' obligations under the applicable laws and regulations of any relevant jurisdiction (including, without limitation, the UK and the US), 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.

Non-IFRS Performance Measures

Barclays management believes that the non-IFRS performance measures included in this document provide valuable information to the readers of the financial statements as they enable the reader to identify a more consistent basis for comparing the businesses' performance between financial periods, and provide more detail concerning the elements of performance which the managers of these businesses are most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by management. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. Non-IFRS performance measures are defined and reconciliations are available on our results announcement for the period ended 30 June 2022.