Barclays Africa Group interim results presentation for the period ended 30 June 2015

29 July 2015

Maria Ramos, Chief Executive Officer

Good morning and welcome everyone to the Barclays Africa Group results presentation for the six months ending 30 June 2015.

With this presentation we are introducing a new webcast format for our interim results. I will make a few remarks followed by David Hodnett our Deputy Chief Executive and Group Finance Director, who will run through our financials in detail. We both look forward to taking your questions following the presentation.

In March 2014 we set out an ambitious three year growth strategy for our business. The strategy is based on the strength of our franchise – an African bank that is fully local, fully regional and fully international.

Last month Barclays Africa's strategy was reaffirmed by the Barclays PLC Board. On his recent trip to Johannesburg, Barclays Executive Chairman John McFarlane confirmed Barclays Africa as one of the Group's four core businesses, and one of the key franchises it will invest in for growth.

We are now in the second year of our three year journey. Today's results demonstrate our strategy is working. Before we turn to our results let me remind you of the strategic priorities I set out last year, and the progress we have made against the.

Our Retail and Business Bank turnaround continues to gain momentum. We delivered strong headline earnings growth with positive JAWS and lower credit impairments. We gained half a million new customers in the Retail Bank. Production levels grew in selected asset classes, for example home loan production in June was the highest in many years.

The customer experience is being transformed through investments in digital technology and innovation, and in new, state-of-the-art branches. Internet banking users increased by 17% and usage of our banking app increased 107% by volume. Teller transactions declined by 21% with customers adopting alternative channels, in line with our strategy. Overall, in the Retail and Business Bank, customer satisfaction is up and complaints are down.

Turning to our Corporate and Investment Bank. Our Corporate Bank in South Africa performed well in the first half. We saw good deposits growth from global corporates. In the rest of Africa, our Corporate business was impacted by higher impairments and lower than anticipated loan book growth. We still see a significant opportunity to grow the Corporate business outside South Africa. An important driver of this growth will be the continued roll-out of Barclays.net, our integrated transactional banking platform across the continent.

Our Markets business outside South Africa performed well. For the first time our forex revenues from outside South Africa exceeded those earned in South Africa. Key to this success was the continued roll out of BARX, our electronic forex trading platform, which clients are using in 8 countries.

In our Wealth, Investment Management & Insurance business, we saw good earnings growth overall, especially outside South Africa. This is driven by geographic expansion, improved short-term margins and growth in fiduciary services. We have established additional presence in Tanzania and in Kenya, where we entered into an agreement to acquire a short-term insurance business, subject to regulatory approval. Wealth & Investment Management has seen a turnaround with an increase in assets under management from strong institutional flows. We have strengthened our investments capabilities and implemented a franchise model for active asset management. Client assets under management increased by R9bn.

Whilst our attention remains firmly on South Africa, we will continue to invest in our other key markets to accelerate the growth opportunity. Double digit headline earnings growth in the Rest of Africa significantly outpaces growth in South Africa. We expect this trend to continue. In RBB, our focus in the rest of Africa continues to be on revenue growth and greater efficiency. We are investing in technology and innovation to improve the customer experience. In Corporate Banking, we are growing our share of global and regional corporate clients. And in Wealth, Investment Management and Insurance, the business continues to grow, and we are broadening our offerings and channels. We remain focused on execution in all our businesses in the Rest of Africa. This will further cement our position in our key markets.

Core to our strategy is our focus on putting our customers first and creating an organization that attracts and retains the best talent across the African continent. Employment equity, diversity and employee engagement remain a priority and are vital to our long-term success. We continue to invest in leadership and development, including our pan-African talent mobility and graduate programmes. We also have a broader commitment to grow capability within communities in which we operate, for example through initiatives such as Enactus and Bright Young Minds.

I described the progress we've made on our strategic priorities. To measure this progress, you will recall we made four key commitments at the outset of our three year strategy.

- First, we are targeting a return on equity (RoE) of 18-20%. For the first half, RoE was 16.4% compared to 16.1% in the first half 2014. There is more to do to close the gap, but we believe this is still the right target. Our South Africa business is at 16.7% and there continue to be other opportunities for higher returns in the portfolio.
- Second, to be top three by revenue in our top five markets. We are currently in the top three in South Africa, Botswana and Ghana, with scope to improve in Kenya and Zambia, where we are fourth.
- Third, a cost-to-income ratio in the low 50s. Our cost-to-income ratio improved marginally to 55.9% and we are on track to meet our commitment by 2016.
- Fourth, our business outside South Africa will contribute between 20% and 25% of overall revenue. The first half saw revenue share increased to 20.3%, already putting us in the target range.

In summary, at the mid-point of our three year journey, these results are evidence that our strategy is working. Our business in South Africa continues to strengthen. We have increased the contribution of our business outside South Africa and will continue to accelerate the opportunity. Importantly, we are delivering on our commitments.

Let me now hand over to David Hodnett who will walk through the financials in detail.

David Hodnett, Deputy Chief Executive and Financial Director

Thanks Maria.

Pre-provision profit drove earnings growth

My main message for the first half is that despite a tougher macro backdrop, we have delivered on the areas promised and the shape of our P&L was as we guided. Importantly, we achieved positive JAWS. This increased our pre-provision profit 7% to R14.3 billion, which drove our 11% earnings growth and further progression in our RoE. Our loan growth improved to 7% and our net interest margin continued to widen. Improving our non-interest income trajectory remains a clear priority, and I'll show later how we are gaining traction in a number of our focus areas.

Our credit loss ratio fell, despite increasing our portfolio provisions further, while our costs remain well managed, growing 5%, as we optimized in the right areas to allow us to invest in growth initiatives.

Gaining revenue traction in focus areas …

Excluding the impacts from non-core equity portfolios, reduced industry interchange rates and rand appreciation, our normalized revenue growth was closer to 8%. We are gaining revenue momentum in key operations, such as Retail and Business Banking in South Africa, which contributed 57% of our first half earnings. As Maria mentioned, our retail customer numbers have turned, growing 2% to 8.8 million including 8% growth in our affluent segment.

Together with modest price increases, this improved our core transactional revenue growth from minus 1% last year to plus 6%. At R3.4 billion, this annuity revenue stream accounts for 10% of our group income. Business Banking's transactional revenue grew 12%, a continuation of the trend seen in the second half of 2014. Its customer numbers have stabilized and were flat year to date.

… across divisions and geographies …

We are gaining traction in areas in which we are historically underweight. Maria mentioned our Markets revenue in the Rest of Africa, which grew 27% to R679 million, a third of CIB's total trading. Having rolled out our foreign exchange platform and risk systems, we expect strong growth here, as more countries develop momentum and we grow our corporate flows.

Despite increased competition, Corporate SA has grown its revenue 12% compound since the first half of 2012 to R1.9 billion, with strong growth in trade finance and deposits. With a market share still in the mid-teens, we expect further growth in transactional revenue, particularly after Barclays.Net is in place. I should mention that we maintained strong momentum in parts of WIMI too. In particular, Rest of Africa continued its strong trajectory, with 39% compound revenue growth over the past two years, on the back of our established banking franchise.

… with improving underlying metrics in others

It was clear that Barclays Africa Limited's revenue growth was modest before we acquired it and in addition to expanding CIB's offering and rolling out WIMI, we had to invest heavily to remedy this. RBB Rest of Africa's growth has improved, with double digit increases in constant currency revenue and loans. However, we continue to expect more from it.

Encouragingly, there is strong momentum in RBB Rest of Africa's underlying metrics. For example, our Premier retail customers grew 14% and new to bank savings accounts increased 35%, while new to bank card sales grew 92%, off a low base. Card acquiring turnover increased 20%, as we signed up large retailers, and the number of companies with workplace banking also grew 20%. Finally, as we invested in systems and product, digitally active customers grew 97%, and our customer net promoter score increased to 33% from 15%, which highlights the progress we are making from a customer perspective.

Double digit loan growth excluding property

Our loan growth improved to 7% from 5% in December. Although our total gross property-related books continue to decline, these are also starting to turn. While gross retail mortgages decreased 2%, its net book was flat year to date, due to 9% higher new business. In fact, our book grew last month, for the first time in seven years. As previously stated, we aim to increase our share of flow in mortgages from 19% to around 25% over the next three years. Our gross commercial property finance book grew marginally year to date, as payouts increased 28%.

Our non-property loan growth improved to 13%. Vehicle finance grew 11%, despite 3% lower retail new car sales in South Africa, as we continued to gain market share, particularly in commercial. Retail benefited from the shift to used cars and an excellent performance from Ford Financial Services, with 35% higher new business. Credit cards grew 6%, with Absa Card and Woolworths Financial Services both up 9%, while our Edcon portfolio declined 4%. Sector growth in personal loans continued to slow and is now more in line with our 3% growth, which remains predominantly to lower risk existing customers.

Within 'RBB other', Rest of Africa lending grew 9%, including 15% higher Commercial loans. Business Banking South Africa's term loans grew 13% and agri 10%. CIB's loans continue to grow strongly, with 22% higher term loans and preference shares up 45%.

Loan pricing and endowment lift margin

Our net interest margin continued to improve, rising 14 basis points to 470 basis points. However, most of our margin drivers and drags have changed from 2014. Loan pricing added 6 basis points, as improved pricing in Home Loans and Personal Loans was partly offset by some compression in Vehicle and Asset Finance. Loan mix was slightly positive, with a lower proportion of mortgages outweighing strong growth from CIB.

Unlike last year, our overall deposit margin was flat, as higher liquidity premiums offset lower reliance on more expensive wholesale funding. Higher South African interest rates increased our endowment benefit on deposits and equity by 6 basis points. Structural hedging contributed 15 basis points to our margin, with R586 million released to the income statement, which was 6 basis points less than last year. Our cash flow hedging reserve decreased to a R263 million debit after tax, from a R353 million credit last December.

Given its increased weighting, Rest of Africa enhanced our margin by 3 basis points, despite its own net interest margin declining to 7.6%. In 'other', changing our funding model for foreign currency loans added 11 basis points, with an equal reduction in non-interest income. Adverse prime-JIBAR moves and a prime reset benefit in the base reduced our margin by 7 basis points.

Non-interest income growth picking up

Our revenue mix remains well balanced, as our non-interest income growth improved to 4%.
Fee and commissions remain the largest component, indicating a high proportion of annuity income. Retail SA's fee growth was limited to 4% following the R74 million impact of reduced interchange rates from mid-March and merchant income declining 3%, despite 12% volume growth to R110 billion, due to margin compression. Business Banking's electronic banking income grew 9%, driven by volume and price increases while cheque payments dropped 22%, in line with industry trends.

Both businesses continue migrating customers to digital channels, which reduce revenue generating transactions, but offer cost efficiencies in traditional channels, and greater convenience for customers. This shift to digital channels also impacts our Markets business, putting pressure on margins, particularly in foreign exchange trading.

Although CIB's net trading result fell 24%, this was largely due to lower hedging revenue from changing how we fund foreign currency loans. CIB's total Markets revenue increased 1% to R2.1 billion. WIMI's non-interest income grew 8%. Net life premiums in South Africa increased 3%, while net insurance premiums in South Africa grew 4% and the rest of Africa by 15%.

Continue saving to invest in growth

Our operating expenses increased 5%, a similar rate to the second half of 2014, as we continue to reflect efficiency gains from structural cost programmes.

Our South African costs grew 5%, while Rest of Africa rose 4% or 8% in constant currency. Staff costs rose 10% and accounted for 55% of the total. Salaries grew 8% due to hiring specialist staff and higher wage increases, particularly for entry level employees. Non-staff expenses decreased 1%, with property-related costs reducing 6%, reflecting our branch efficiency programme in South Africa, the optimization of our corporate property portfolio and lower dilapidation costs. We see further opportunities in our operations area, IT and the rest of Africa branch network.

While direct IT costs fell 2%, our total IT spend grew 9% to R3.1 billion, 17% of group expenses, as we continued to hire key resources and increase investment and infrastructure spend. We continue to invest in growth, as we spent R1.2 billion on strategic initiatives, and marketing grew 23% including increased product advertising. As part of our rest of Africa acquisition, Barclays PLC is spending 30 million pounds a year on IT for five years, a substantial benefit that is not immediately evident in our income statement. 'Other' costs fell 4%, largely due to reduced fraud and losses.

Focus on quality lending evident in credit loss ratio

Despite households being under pressure and low consumer and business confidence, our credit loss ratio decreased slightly to 111 basis points, driven by lower Retail and Business Banking charges in South Africa. This continued improvement reflects our focus on high quality loan growth and strengthening of our collections in recent years. Although CIB's charge increased substantially, it remains low at 28 basis points. Remember, we calculate our credit loss ratio differently from peers. For comparative purposes, our like-for-like charge was 94 basis points, after excluding R133 million of collection costs and including loans to banks.

Credit charge and cover improved

Our credit impairments declined 1%, largely due to Home Loans and Commercial Property Finance falling 50% or by R300 million. Home Loans' credit loss ratio almost halved to 25 basis points, as our non-performing loans dropped 22% to R9.5 billion or 4.1% of gross mortgages. Our mortgage NPL cover decreased to 23% from 27%, as we wrote off aged NPLs with higher cover. Personal Loans and Card's credit loss ratios both improved.

Card's fell, as our Edcon portfolio declined to 12.6% from 15%. Although credit quality in Card remains within expectation, early delinquencies and debt counselling inflows have increased. Vehicle finance's credit loss ratio was flat. However, there are some signs of strain emerging in the retail book, as you would expect at this stage in the credit cycle. At 4% of gross loans, Group NPLs continued to decline and our cover rose to 44%, largely driven by mix changes. Importantly, we improved our portfolio provisions 14% to R4.8 billion, or 74 basis points of performing loans, from 70 basis points last December.

Deposit growth funded lending to customers

Turning to our balance sheet, our assets grew 6% to exceed R1 trillion for the first time. On the funding side, strong growth in customer deposits was our principal source of growth, while the increase in our equity was offset by lower borrowed funds, as we called R5 billion in subordinated bonds. With our high quality liquid assets growing to R97 billion, including R44 billion of surplus liquids, we actively manage their performance, as margins on these assets fell during the period.

We continue to comply with current LCR requirements and maintain an adequate buffer, without having to utilize the Reserve Bank's committed liquidity facility. On the asset side, we deployed most of the additional funding into growing our customer loans, as I detailed earlier.

Improving growth across most deposit franchises

We maintained good momentum in customer deposits, which provide the bulk of our funding. Our largest businesses all produced double-digit growth. Twelve percent Corporate deposit growth reflected continued progress in South Africa, while Retail Banking South Africa maintained its leading market share, increasing deposits 12%. And Business Banking South Africa's deposits grew 10%, including 30% higher savings and transmission deposits.

Actively reducing expensive deposits, liquidity constraints in certain markets, competition and currency moves constrained RBB Rest of Africa's deposit growth to 6%. Including debt securities in issue, our total loan to deposit ratio improved to 86%, with Rest of Africa well below this at 63%.

Capital levels remain strong

Looking at the drivers of our Group core equity tier 1 ratio, our risk-weighted assets grew 10%, largely due to asset growth. Regulatory changes also increased our RWAs. For example, the SA Reserve Bank no longer excludes credit valuation adjustments, which almost doubled our counterparty credit risk. We continue to offset this growth with a focus on RWA precision. We remain very capital generative, as first half earnings added 1% to our CET1 ratio. With our high payout, our second half 2014 dividend reduced our CET1 by 69 basis points. An R816 million reduction in our foreign currency translation reserve was the main reason for the 10 basis point reduction in 'other'.

At 11.7%, our CET1 ratio remains comfortably above regulatory requirements and slightly above the increased 11.5% of our board range. We expect to remain at the top end of our target range, given changing regulations and uncertain economic conditions. We plan to deploy our surplus capital into growth opportunities, such as CIB and Business Banking outside South Africa and Corporate locally.

Return on assets continues to drive higher RoE

Improving our return on assets to 1.33% was the principal reason our return on equity improved to 16.4%, since our leverage declined slightly to 12.4 times. Despite a higher 13.75% cost of equity, our economic profit grew 12% to R1.1 billion. Remember that our RoE is seasonally stronger in the second half, due to higher fourth quarter volumes and lower credit impairments. Our South African RoE was 16.7%, reflecting this seasonality. It was good to see Rest of Africa's RoE improve to 15.1%, although this remains well below our medium-term expectations.

Strong returns across diversified franchise

All our business units produced strong returns. WIMI's RoE improved to 26%, Retail and Business Banking's return on regulatory capital rose to 22% and CIB's was solid at 18%, despite negative Private Equity revaluations. Our earnings remain well diversified. Although Retail Banking in South Africa was 43% of group earnings, it is itself well diversified, with four large businesses.

RBB drove group earnings growth

RBB was the principal driver of group growth, given 17% higher earnings. Its pre-provision profits grew 7%, with all businesses achieving positive JAWS and growing earnings in the mid-teens or better. CIB's earnings increased 3%, as revenue grew 5% in line with costs, credit impairments increased off a low base, and taxation fell 16%. Improved revenue growth enabled WIMI to achieve positive JAWS, which underpinned 14% earnings growth. Our Head Office loss increased, largely due to central portfolio provisions.

Retail Banking SA momentum continues…

Retail's headline earnings grew 16% to 3.1 billion, as pre-provision profits increased 5% and credit impairments fell 10%. In the current period, we allocated several hundred million of central retail costs out to business units, which resulted in a restatement of prior period comparatives. In Home Loans, which accounts for 13% of group earnings, we aim to achieve sustainable, profitable growth. Despite a slightly lower book, its earnings grew 29% to R935 million, as credit impairments fell 47%, costs rose 1% and its margin widened.

Since mortgages remain an anchor retail product that offers attractive returns, we plan on writing our fair share of new business, balancing customer risk grades, margins and LTVs. Vehicle and asset finance benefitted from its partnership with Ford and its strong market share in used vehicles. Its earnings decreased 6% to R450 million as 12% higher credit impairments and some margin compression offset 11% loan growth. Card aims to entrench its leading position, with its existing one third share of issuing and acquiring. Its earnings rose 13% to R642 million, largely due to 6% book growth, smaller Edcon losses, flat costs and 2% lower credit impairments.

Given improving customer numbers and core fee generation, our Transactional and Deposits segment grew earnings 13% to R1.2 billion, as 8% revenue growth comfortably exceeded 5% cost growth. This business contributed 17% of group earnings. Personal Loans continues to target growth among low risk existing customers. Its earnings increased significantly to R122 million, given better priced new business, lower costs and an 11% drop in credit impairments.

… as does Business Banking SA

Our focus on stabilizing Business Banking South Africa and gearing it up for growth yielded strong first half results. Positive JAWS grew its pre-provision profit 10%, which when combined with 17% lower credit impairments, lifted headline earnings 22% to R1.1 billion, 14% of group earnings. This growth is likely to slow in the second half, given last year's big base.

Business Banking South Africa's return on regulatory capital remains attractive at 26%. Business Banking continues to contribute to growth in other divisions, including acquiring and the 11% growth in commercial asset finance, which we report in Retail Banking. As a strong deposit gatherer, it also provides R36 billion of net funding to the group. We continue to see an opportunity to increase sales of insurance products to its customers. Although customer numbers have not turned as noticeably as Retail, these have stabilized and we expect to see future benefits from Business Banking's investment in various growth initiatives. It has enhanced digital functionality, hired additional relationship managers and is rolling out Barclays.Net as its core platform, all of which should improve the customer experience.

Business Banking's credit loss ratio has improved materially in the past two years, despite its portfolio provisions doubling to 116 basis points. Its non-core equity portfolio fell 12% to R2.2 billion, given further disposals, and the losses here halved to R15 million.

WIMI strategy delivers growth

Last year we positioned WIMI for sustainable growth. Delivering on this strategy produced mid-teen earnings growth and improved its RoE to 26%. We have transformed Short-term insurance in South Africa. Earnings grew 48%, as our underwriting margin improved to 6%, back to within our target range of 5% to 7%. We discontinued crop insurance as an underwriting line of business and reduced our high expense ratio in personal lines by outsourcing to a third party administrator. We are looking at further strategic options to address our Commercial and Industrial Insurance, where margins and returns remain structurally below target.

As noted, with strong earnings growth, our rest of Africa expansion continues to deliver. We recently launched life assurance in Kenya, and have bought a majority stake in First Assurance, which gives us some scale and a presence in Tanzania.

Last year, Distribution took a number of proactive actions to prepare for changing regulations and consumer demands. The reduction in advisors impacted gross commissions, but revenue levels were maintained by increasing productivity in the second quarter and growth in our direct distribution channels. Lower operating costs offset this revenue pressure, resulting in Distribution breaking even.
We have completed Fiduciary's turnaround and improved its margin to target levels. Our focus here has shifted to maximising its contribution through cross selling. Fiduciary delivers annuity revenue of R341 million and contributed R139 million to Group profits.

Life's revenue growth remained moderate and our embedded value of new business declined 23%, largely due to reduced pricing outside South Africa. However, headline earnings grew 7% to R394 million.

We changed Wealth into an investment-led advisory business and fee income here grew 16%. Investment Management moved to a franchise model, to improve client offerings and attract and retain investment professionals. Our assets under management increased 6% this year to R274 billion. Continued investment in people and systems increased costs 15%, which meant earnings fell 7%.

All core CIB operations grew net revenue

Excluding negative revaluations in the non-core Private Equity portfolio, Corporate and Investment Bank's headline earnings grew 9%. Corporate earnings in South Africa increased 30%, given its double digit revenue growth. As noted, rolling out transactional systems offers further upside potential.
Our Corporate strategy in the rest of Africa is currently debt-led, although this will shift to a transactional focus as we land platforms during the course of next year. Net revenue declined 4%, due to higher credit impairments, slower loan growth, and non-interest income pressure. We expect to continue gaining share among multinationals operating across Africa.

Strong growth in Markets revenue outside South Africa increased its headline earnings 58% and we expect further growth, as we gain more Corporate flows across the continent. Markets revenue in South Africa decreased 8%. Client activity was muted in the second quarter and margins declined, particularly in foreign exchange, which fell 22%, while Fixed income and credit revenue declined 13%

off a high base. Diversifying into Equities and Prime Services continues to pay off, with 44% revenue growth to R362 million. Our trading remains predominantly client-driven, as shown by our low average daily value at risk of R28 million.

Our gross Banking revenue grew 13%, including 19% higher fee income from renewable energy deals and 16% loan growth. Credit impairments increased off a low base, largely due to pressure in the resources sector.

Strong growth across Rest of Africa portfolio

We closed our Barclays Africa acquisition almost two years ago, to the day. The transaction remains earnings enhancing and our portfolio outside South Africa grew headline earnings 22% and 26% in constant currency. Revenue momentum has started to improve with constant currency growth of 12%, and our operations all achieved positive JAWS, as the cost to income ratio declined by 2.3% to 60%. The effective tax rate also fell off a high base. These offset a 34% increase in credit impairments, mainly in our CIB portfolio as macro conditions tightened in various countries.

Rest of Africa's revenue contribution to CIB increased to 34% of its total revenue and we still see considerable room to grow this, initially in Markets and lending, and then in Corporate transactional business, once we roll out our core systems. As we have highlighted, WIMI maintained its strong rest of Africa growth. Expanding into East Africa will enhance this growth from the fourth quarter.
I also flagged RBB's improving momentum, with 15% higher earnings and strong growth in underlying metrics. These should reduce its cost to income ratio from a high 68%.

Although 22% earnings growth lifted rest of Africa's RoE to 15%, it remains below target. We see a clear path to improve its returns, through reducing its effective tax rate, surplus capital and RBB's high cost to income ratio, and turning around under-performing operations.

Before we take your questions, I want to give our expectations for the full year.

- With South African interest rates likely to increase another 25 basis points this year, we expect our net interest margin to widen slightly from 2014.
- We still see mid-single digit loan growth, with CIB growing faster than RBB.
- Rest of Africa's earnings growth should continue to exceed South Africa's this year.
- Continued focus on revenue growth and cost management should result in positive JAWS reducing our cost-to-income ratio.
- Given normal seasonality, our credit loss ratio should fall from the first half's, to a level similar to last year's 102 basis points.
- These factors should improve our full year return on equity.

Ends.