

**Barclays PLC FY 2019 Results****Fixed Income Conference Call Speech****Tushar Morzaria, Barclays Group Finance Director****Kathryn McLeland, Group Treasurer****Miray Muminoglu, Head of Term Funding****Title slide: Barclays PLC Fixed Income Investor Call – FY 2019 Results Announcement**

1. Good afternoon everyone and welcome to the fixed income investor call for our full year 2019 results.
2. I'm joined today by Kathryn McLeland, our Group Treasurer and Miray Muminoglu, our Head of Term Funding.
3. Let me start with slide 3 and make a few brief comments on our 2019 performance and our targets before handing over to Kathryn.

**Slide 3: FY19 Group highlights**

4. We reported a profit before tax of £6.2bn that delivered an RoTE of 9%, in line with our target for the year, and the third consecutive year of RoTE progression.
5. On capital, Kathryn will shortly go into detail on our CET1 position of 13.8% and our comfort with our target level of around 13.5%.

6. As mentioned this morning, we still believe that above 10% is an appropriate RoTE target for Barclays over time, but achievement of this in 2020 has become more difficult.
7. We are nevertheless confident of reporting meaningful year-on-year progression in RoTE for 2020.
8. In 2019 we grew income 2% YoY, with growth in CIB and CCP, and income held up well in Barclays UK despite the challenging rate and margin environment.
9. Impairment was £1.9bn, up on last year's charge, which benefitted from improved macroeconomic variables, but credit metrics remain broadly stable across both secured and unsecured portfolios.
10. Costs were down 2%, delivering positive jaws, at the Group level and in each of our operating businesses.
11. Costs were just below £13.6bn, in line with our guidance for the year, with a cost:income ratio of 63%.
12. Cost control will remain a major focus, as we flex our cost base to suit the income environment, and pursue our existing target of delivering a sub-60% cost:income ratio over time.
13. As we continue to improve our operating leverage, progression in our RoTE remains a key priority for the Group.
14. And with that let me hand over to Kathryn. I will return at the end of her remarks to make some comments on benchmark reform, but for now Kathryn will walk through our balance sheet highlights.

#### **Slide 5: FY19 highlights**

15. Thanks Tushar.
16. As you can see on slide 5, we finished last year with a robust balance sheet across all our metrics. Our CET1 ratio was 13.8%, MREL finished ahead of our interim requirements at 31%, and our LCR remains at a prudent level of 160%.

17. With this backdrop of a strong and stable balance sheet, together with the improved earnings Tushar and Jes outlined earlier today, we were delighted that Moody's recognised these achievements by upgrading the ratings of Barclays PLC and Barclays Bank PLC two weeks ago.
18. Let me now get straight into the key topics, starting with capital on slide 6.

#### **Slide 6: YoY CET1 ratio progression**

19. We reported an increase of 60 bps in the CET1 ratio to 13.8% over the year.
20. The largest driver of the ratio increase was from underlying profits of 161bps, demonstrating the continued earnings capability of the Bank.
21. This capital generation enabled us to increase our dividend to 9p from 6.5p in the prior year.
22. Profits for the year were partially offset by conduct and litigation charges, including the PPI provision of £1.4bn, and we now anticipate a significant reduction in charges going forward.
23. Q3 also saw the conclusion of discussions with the Regulators to remove the operational risk floor, which resulted in a £14bn reduction in RWAs and a corresponding increase of 63 bps in our CET1 ratio.
24. Given this was a transfer in requirements from pillar 1 to pillar 2, we also announced at our Q3 results an increase in our CET1 ratio target from c.13% to c.13.5%.
25. I now want to spend a moment on the calibration of our CET1 target ratio, which you can see on slide 7.

#### **Slide 7: Prudently managing the Group's capital position**

26. You will all be familiar with our capital management framework which we use to calibrate our target CET1 ratio. We look to hold a prudent buffer above the hurdle rate for mandatory distribution amounts (MDA) and to ensure we are able to prudently pass stress tests.

27. The release of the Bank of England's Financial Stability Report on 16<sup>th</sup> December brought some key developments impacting UK banks.
28. First, the announcement of the BoE's intention to increase the UK countercyclical buffer to 2% from the current 1% requirement, from December this year. Given our UK exposures, this would be expected to translate into a c.50bps increase in our CCyB requirement to c.110bps.
29. At the same time, the FSR stated that the PRA will consult on reducing banks' total pillar 2A requirement by 50% of the CCyB increase.
30. Taking into account the 56% pillar 2A CET1 requirement, we currently estimate this CET1 P2A benefit to be c.14bps, leading to a net increase in our MDA hurdle of c.36bps to c.12.5%.
31. We have kept our CET1 target at c.13.5%, as we believe these developments are manageable.
32. Importantly, the CCyB is a stress buffer, which the FSR reiterated – *“in a stress, the FPC would be prepared to release the CCyB”*. So, in a stress event, the BoE intends for UK banks' capital requirements to reduce, to support their ability to lend to the real economy.
33. The c.13.5% CET1 target ratio will sit around 100bps above our expected future MDA hurdle of 12.5%. This is a comfortable headroom under a “business as usual” environment, and we would expect the hurdle to decrease under a macro stress scenario.
34. Before moving away from our Group capital section, I wanted to briefly refer to one further aspect in the FSR on stress testing, which you can see on slide 8.

#### **Slide 8: Demonstrated ability to pass stress tests**

35. We were pleased to pass the 2019 BoE stress test with a prudent headroom above the hurdle rate, and would highlight their continued constructive remarks that UK banks would be resilient to deep simultaneous recessions across global economies.

36. Our CET1 ratio drawdown was again the lowest compared to our major UK peers at 430 bps, demonstrating the prudent risk appetite that we've maintained, and our diversified business model.
37. We welcomed the comments in the FSR that sought an enduring approach to the treatment of IFRS 9 in future tests, consistent with their previously stated principle that IFRS 9 should not result in an unwarranted *de facto* increase in capital requirements.
38. You will have seen the BoE is consulting a potential adjustment to make non-delinquent provisions taken for expected loss beyond one year to count as capital, which has the potential to be a meaningful positive adjustment for us.
39. Turning now to leverage which you can see on slide 9.

#### **Slide 9: Dynamically managed leverage exposure**

40. Our UK leverage ratio was 5.1% on a spot basis, and 4.5% on a daily average basis.
41. These are prudent positions to hold above our UK leverage requirement, which currently stands at just below 4%.
42. When the UK CCyB increases, all else being equal, the leverage requirement would increase to just below 4.2%, although of course this too would reduce under a macro stress, as with the CET1 requirement.
43. We remain comfortable with the leverage position we hold, as we have a proven ability to dynamically manage leverage exposures that are short term or liquid in nature and relate particularly to Financing, Macro and Treasury activities.
44. We regularly deploy leverage balance sheet into highly liquid or short term areas to make optimal use of our resources while ensuring that our leverage usage is comfortably above regulatory minimums.

45. Our spot and average measures will therefore generally be wider than many of our UK peers which have less flexibility given their more static leverage positions.
46. We also note that the UK is the only jurisdiction globally to regulate on an average and spot basis, and so the practice of deploying so-called liquid leverage intra-quarter is particularly transparent in the UK, but we believe is widespread across the global banking sector.
47. We continue to closely monitor potential regulatory change in leverage requirements, which include the FPC's ongoing review.
48. In particular, as you may have heard in Tushar's remarks from this morning, we expect the implementation of CRR2 to provide a meaningful benefit to Barclays Group and Barclays Bank PLC leverage positions given the change in regulatory treatment for settlement balances, and the more risk sensitive approaches available for derivatives.
49. Our forward planning for leverage of course takes these items into account and the RWA based CET1 ratio remains our primary constraint.
50. Turning now to the balance sheet metrics of our main subsidiaries.

#### **Slide 10: Strong legal entity capital positions**

51. The CET1 ratio target for the Group of around 13.5% continues to accommodate the capital requirements of *all* our legal entities.
52. As you can see on slide 10, Barclays Bank UK PLC and Barclays Bank PLC printed CET1 ratios of 13.5% and 13.9% respectively.
53. These ratios reflect prudent headrooms to their respective MDA hurdles.
54. For BBUK, the ratio reduced since the previously disclosed level of 14.4% as at Jun-19, driven by the PPI provision in September partly offset by profits. With the uncertainty materially reduced we

would expect to run the CET1 ratio for the entity at a somewhat lower level relative to our historic positions.

55. Slide 11 looks at the other elements of our capital stack.

### **Slide 11: Capital structure well established**

56. We continue to target an AT1 amount around the year end levels, although as a proportion of RWAs we would expect the level to reduce modestly if RWAs increase as part of usual seasonal activity intra year. The level could also vary above and below this as we manage through potential redemptions and any issuance activity preceding it.

57. For Tier 2 - we are incentivised to hold at least 3.3% of RWAs in this form, and we intend to continue to maintain a headroom.

58. On legacy capital, as I've previously mentioned, our modest and short-dated post-2022 stack means our position is very manageable.

59. You will have seen our decision announced last week not to call the Euro 4.75% preference shares, for which we have just over €300m outstanding of the €1.4bn initially issued in 2005.

60. We applied our longstanding test of "economics in the round", of considering the direct earnings implications around refinancing, the impact on our broader wholesale funding stack and the FX impact on redemption when considering non-GBP equity accounted instruments. In addition, the continued capital recognition under transitional rules was also a relevant factor.

61. This instrument remains redeemable on a quarterly basis and we'll continue to monitor these factors.

62. While this represented the first non-call of an institutional issued security for some time, the principles that I've laid out have been consistently communicated for some time, including the economic approach when the exchange offer for this particular security was undertaken in 2014.

63. Turning now to our HoldCo issuance plans.

**Slide 12: Successfully transitioning to HoldCo funding model**

64. As you can see on slide 12, we were active in the primary markets during 2019, issuing c.£9 billion equivalent from the Holding Company.

65. As a result, our year end MREL ratio was 31.2% on a HoldCo basis, and 32.8% on a transitional basis – in excess of our interim requirements and at our 2022 requirement of around 31% of Group RWAs.

66. As many of you listening to this call will know, we intend to hold a prudent headroom above this minimum MREL requirement.

67. Taking all this into account, our MREL funding plan for the year is c.£7-8bn likely resulting in another year of being a net negative issuer when also considering OpCo term funding and capital potentially rolling off.

68. Our MREL funding plan covers the full range of AT1, Tier 2 and senior unsecured and we expect to continue the trend of prior years with senior unsecured making up over half the total MREL supply volume.

69. Within the subordinated space, we expect issuance to be skewed more to Tier 2 issuance this year, whilst still being a regular issuer of AT1.

70. For the two main subsidiaries of BB PLC and BBUK PLC, they have been accessing the funding markets across the diverse spectrum of funding sources, and we expect they will continue to be active.

71. Turning now to liquidity.



**Slide 13: High quality liquidity position**

- 72. Slide 13 shows our continued prudent approach, with a liquidity pool of £211bn and an LCR of 160%, representing a surplus of £78bn above our 100% regulatory requirement.
- 73. We remain comfortable with the conservative position that we run, and believe this to be an inexpensive credit strength.
- 74. Given the reduced Brexit risk – but of course subject to the UK and EU trade negotiation outcome – you could reasonably expect us to run a slightly lower LCR, whilst continuing to maintain prudent surpluses to internal and external requirements across the Group and its material entities.
- 75. Turning now to ratings.

**Slide 14: Ratings remain a key priority**

- 76. Credit ratings remain a key priority for management, and we were pleased that a fortnight ago Moody's recognised our improved earnings profile and upgraded Barclays PLC and Barclays Bank PLC by one notch to Baa2 and A1 respectively.
- 77. This followed the positive outlooks that had been placed on these entities eight months previously.
- 78. We continue to work closely with all credit rating agencies in conveying the successful execution of our strategy and our improving credit profile.
- 79. Turning to slide 15.

**Slide 15: ESG highlights – Group Treasurer's perspective**

- 80. Before I conclude, I want to spend a moment on ESG, which I commented on in the 2019 half-year call.
- 81. Since then, there have been exciting developments across the firm, including Treasury.

82. Firstly, in Q419 we published an updated Green Bond Framework, which is aligned with the equivalent aspects of the UN Sustainable Development Goals. The Framework's eligibility criteria were expanded to include corporate loan assets and Barclays real estate, in addition to the UK residential mortgage assets which featured in our inaugural 2017 Green Bond Framework.
83. We certainly hope to issue under this Framework during the year.
84. Secondly, we continue to be a meaningful investor in green bonds ourselves, and are making good progress towards our target of holding £4bn in the liquidity pool.
85. Outside of Treasury, we've also this year incorporated Climate Risk in our Enterprise Risk Management Framework and have performed the first assessment of our exposures to climate change. We are very much engaged with the Bank of England climate stress testing initiative and are members of its Innovation Working Group.
86. And with that, I'll hand back to Tushar for some final remarks on our role in benchmark reform.

**Slide 16: Name slide, Tushar Morzaria**

87. Thank you Kathryn.
88. As mentioned at the beginning, I wanted to make a comment on Libor transition given the regulator's recent comments. We note one of their target dates is drawing nearer, for the cessation of new issuance referencing Sterling Libor after the end of September this year.
89. I continue to Chair the Working Group on Sterling Risk Free Reference Rates and we've benefited from the BoE and FCA's engagement as we all look to deliver an orderly transition away from Sterling Libor for the derivatives and cash markets.
90. At Barclays we continue to support the transition to risk free rates. We've recently initiated a programme to help inform our clients about some of the key issues and have reached out to over 20,000 so far.

91. Specifically for holders of our securities that reference Libor beyond 2021, we welcome the BoE's position of not wanting to reassess eligibility of our capital instruments if amendments are made solely to replace benchmark reference rates. Whilst floating rate notes are few and far between in our liability stack, we continue to follow developments closely and we will continue to do our part to find an orderly resolution.
92. We note recent market developments with some of our peers using consent solicitations as a tool to transition bondholders to new reference rates. Whilst I can't comment today, we will of course be engaging with investors at the right time about the solutions that we could deploy.
93. Elsewhere we've been contributing to wider efforts through our own market participation – for example last month we executed our inaugural CP linked to €STR with a €1bn deal – and by enabling others to make the transition including by co-leading Shell's \$10bn sustainability loan linked to SOFR.
94. We will continue to keep the market informed of further developments.

#### **Slide 17: Conclusion/Q&A**

95. So to conclude, as we delivered our 2019 returns target we remain focussed on RoTE progression.
96. We maintained – and look to continue – running a robust balance sheet and prudent capital and liquidity positions.
97. With that, we would now like to open the call up to questions and I hope you have found this call helpful.
98. Operator, please go ahead.

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- regulatory capital, leverage, liquidity and resolution is based on Barclays' interpretation of applicable rules and regulations as currently in force and implemented in the UK, including, but not limited to, CRD IV (as amended by CRD V applicable as at the reporting date) and CRR (as amended by CRR II applicable as at the reporting date) texts and any applicable delegated acts, implementing acts or technical standards. All such regulatory requirements are subject to change;
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