

**Barclays PLC H1 2020 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 – H1 2020 Results Announcement**

Good afternoon everyone and welcome to the fixed income investor call for our half year 2020 results.

I'm joined today by Kathryn, our Group Treasurer and Miray, our Head of Term Funding.

Let me start with slide 3 and make a few brief comments before handing over to Kathryn.

**Slide 3: H120 Group highlights**

As I mentioned this morning, the result for the first half showed the benefit of our diversified business model.

Profits for the first half were down on last year, reflecting a material increase of £2.8bn in the impairment charge to £3.7bn, but growth of 8% in income as the CIB delivered a strong performance, and a decrease of 4% in costs resulted in a profitable half and an RoTE of 2.9%.

Given the uncertainty around the economic outlook and the low interest rate environment, we do expect the second half of the year to remain challenging. While we continue to believe that

above 10% RoTE is the right target for Barclays over time, we need to see how the downturn plays out before giving any medium-term guidance.

Before handing over to Kathryn, I want to spend a moment on the impairment charge at Q2 given its importance for our fixed income investors.

#### **Slide 4: Q220 impairment charge driven by updated economic forecasts and expectation of a slower recovery**

Slide 4 explains the workings behind the £1.6bn impairment charge in Q2.

The modelled impairment calculated during the quarter, using the macroeconomic variables, or MEVs, we set prior to running the COVID scenario for the Q1 close, generated a charge of £0.4bn. I think of this as a baseline modelled charge.

In addition to this, we took another £0.2bn in respect of single name wholesale charges in the CIB.

As in Q1, some of these names may have been affected by the onset of the pandemic, but the sum of these two is not materially above our underlying quarterly run rate in previous years of around £0.5bn.

The remainder of the increase reflects the £1bn net impact from using updated COVID scenarios reflecting the deterioration in forecast MEVs and including an overlay of £150m for selected sectors. This book up, as I call it, compares with the £1.34bn we charged in Q1.

We've shown on the slide some of the key UK and US macroeconomic variables used, and there's more detail in the results announcement.

The key changes are that, while the peak unemployment level in the US is lower than in the Q1 COVID scenario, the unemployment levels for both the UK and US remain high for longer.

The level of defaults flowing through will be a key determinant of the charges for the next few quarters.

The extension of support programmes may delay visibility as to the ultimate level of such defaults and to what extent they were already included in the expected loss book up.

### **Slide 5: Q220 impairment coverage ratios**

On slide 5, it's important to look at the coverage ratios to see the full extent of our cumulative protection against the downside risk.

This slide summarises the loan books, impairment build and resulting coverage ratios for the wholesale and consumer portfolios over the last two quarters.

You can see that our coverage ratio has increased at the group level from 1.8% as at 2019 year-end to 2.5% in Q2.

Of course, the coverage ratios vary materially across the secured and unsecured portfolios.

The wholesale coverage has increased from 0.8% to 1.4%, and a large portion of this is in the selected sectors which we consider to be more vulnerable to the downturn. I would remind you that we are looking at the major risks in corporate lending on a name by name basis, including taking into account assessment of the value of any collateral.

The other major area of focus is the coverage on the unsecured consumer books, where the coverage ratio has increased from 8.1% to 12% overall and to 23.1% on Stage 2 balances, most of which are not past due.

Before the current crisis emerged, we had already taken various prudent actions to manage credit risk, including the actions taken in the past four years to mitigate potential Brexit related headwinds. Be it through synthetic protections in our corporate book or simply not growing the

UK unsecured book, we have been happy to sacrifice some income in order to reduce downside credit risk.

Together with our diversified revenue streams, we continue to believe we are well positioned to navigate this stress event.

Our balance sheet remains resilient, having strengthened over recent years to put us in a position to absorb precisely the type of stress we are now experiencing.

And for that, I'll now hand over to Kathryn.

#### **Slide 7: H120 highlights**

Thanks Tushar.

As you can see on slide 7, we finished the first half of the year with a robust balance sheet across all our metrics. Our CET1 ratio was 14.2%, MREL finished ahead of our end-state requirement at 32.4%, and our LCR stands at a very robust position of 186%.

I'll start with capital, on slide 8.

#### **Slide 8: Q220 CET1 ratio increased to 14.2%**

Over the course of the second quarter our CET1 ratio increased from 13.1% to 14.2%.

As you can see on this chart, we had another strong quarter of pre-provision profits that were partially offset by the net impairment charge taken, which you can see has transitional relief applied to CET1 of 35bps.

The CET1 ratio position for June landed materially better than where we had guided in April, at the time of our Q1 results, when we had expressed our comfort of potentially going below 13%.

The support from governments, central banks and regulators has been unprecedented. This was not all anticipated at the time we gave that guidance.

The extensive package of support measures has indirectly impacted our CET1 position this quarter by delaying the expected RWA inflation we had guided to.

In addition, wholesale lending balances reduced with the dramatic reopening of capital markets, and... consumer balances fell across our unsecured lending portfolios.

Lastly, regulators provided relief to capital calculations, of which most notable for us in Q2 were IFRS9 transitional relief and PVA.

Let me begin by looking at the RWA dynamics over the quarter.

#### **Slide 9: RWAs decreased over Q220**

RWAs reduced, as the pro-cyclical impact on our exposures was more modest than originally anticipated due to the government support measures and the robust capital markets I just referenced, as well as proactive management actions that we took.

For example, government schemes led some clients to pay down their loans. More than half the RCFs drawn in Q1 have now been repaid.

This meant that the credit quality deterioration we saw in the quarter, which led to a £5bn inflation of credit risk RWAs, was more than offset by the £7.6bn reduction from net lending.

In counterparty credit risk, RWAs reduced by just over £3bn, as we took management actions which offset some deterioration in book quality.

In market risk we also took management actions which, including a reduction in risks not in VaR (or RNiV) RWAs, led to a net reduction of £2.7bn in the quarter.

Looking forward, with the material uncertainty that still exists, and assuming that government support begins to be phased out during the second half of the year, our prudent planning assumes we do see some further RWA inflation this year. This includes the downward rating migration of our exposures.

I will now turn to the interaction of IFRS9 and our CET1 ratio.

**Slide 10: Increase in IFRS9 transitional relief, now at c.75bps**

Our June 30 CET1 ratio of 14.2% benefited from a total of c.75bps of IFRS9 transitional support. Stage 1 and 2 impairments taken since the beginning of the year now attract 100% relief from the June so called CRR “quick fix” package, while we continue to benefit from 70% transitional relief on impairment stock from prior years.

As a reminder, the regulator judges our capital adequacy on this transitional basis, including the distance to MDA.

In a steady state environment, we would expect the amount of transitional relief to remain broadly static and for this to roll off as the relief scalar declines over time.

Given the stress we’re undergoing, and the IFRS9 standard requiring us to take impairments early in stages 1 and 2, this transitional relief under the revised rules has also increased materially.

If our economic forecasts have correctly predicted how the stress will evolve from here, we would expect a lower rate of new stage 1 and 2 impairments in subsequent quarters, and for some of the existing stage 1 and 2 impairments to migrate into stage 3.

If this does materialise, since stage 3 impairments are not eligible for transitional relief, we would expect the difference between transitional and fully loaded CET1 ratios to narrow.

This is an important dynamic to highlight as, whilst the CET1 ratio could decline in the remainder of the year, the impact could be less pronounced on a fully loaded basis.

**Slide 11: Continue to manage CET1 ratio with appropriate headroom above MDA through the stress**

Turning to slide 11.

As guided at the time of our Q1 results, we anticipated a reduction in the Pillar 2A ratio requirement to offset the impact of higher RWAs, which the PRA later formalised into a revised calibration methodology that allows the ratio requirement to respond dynamically to RWA fluctuations.

As a consequence, our MDA hurdle reduced by 30bps to 11.2%.

With the added impact of the countercyclical buffer requirement for the UK reducing to zero in Q1, our MDA hurdle has declined materially by 130bps from the initially anticipated December 2020 level of 12.5%.

This means we are currently operating at 300bps above our MDA hurdle, although this could reduce through the second half of the year if the potential headwinds to capital I've just highlighted materialise. However, this could be partially offset by a declining pillar 2A requirement in percentage terms if RWAs were to inflate.

It's worth noting that when the economy begins to recover, under the current regulatory framework we would expect the MDA hurdle to increase, firstly as the pillar 2A increases as RWAs deflate and secondly assuming the re-introduction at some point of the countercyclical buffer.

Importantly, our approach remains the same – to maintain an appropriate buffer to the MDA hurdle through the stress, whilst supporting our customers.

## **Slide 12: Well positioned to navigate headwinds to capital**

Turning to the next slide, we've summarised the key drivers of our capital ratio during this stress.

Over the first half of the year, the tailwinds of our resilient pre-provision profits, management actions we've taken and regulatory support have outweighed the headwinds of RWA pro-cyclicality and impairment, as our CET1 ratio increased from 13.8% to 14.2%.

As I've just mentioned, these headwinds have the potential to affect our capital ratio in the second half of the year, although Q2 has demonstrated how difficult this is to forecast.

It's important to remember that some of the benefits from the regulatory forbearance are expected to be transitory.

The most meaningful upcoming change is the expected application of risk weighting to software assets, rather than the current treatment of full deduction from equity. We expect the impact to be an uplift of around 20bps, possibly from the second half of this year.

However, we will have to wait to see if the PRA will want to offset some of this benefit in the calibration of our pillar 2A requirement, which they referenced in their 30th June statement.

### **Slide 13: Managing evolving future Group minimum leverage requirements**

Moving briefly onto leverage which you can see on slide 13.

As with the CET1 requirement, the leverage requirement has also reduced since the start of this crisis, and with a ratio of 5.2% we are currently operating 140bps above the minimum requirement of 3.775%.

The ratio now reflects the netting of settlement balance assets and liabilities, and we expect further tailwinds to come through when the remaining CRR2 changes come into effect in June next year.

In addition, the CRR leverage requirement, due to become binding from next year, will only be at 3%, as the G-SIB component will now not apply until 2023.



#### **Slide 14: Strong legal entity capital and liquidity positions**

Moving briefly onto our subsidiaries.

Slide 14 shows the June 30 CET1 ratios for Barclays Bank UK PLC and Barclays Bank PLC of 14.2% and 14.3% respectively.

These ratios continue to reflect prudent headrooms to their respective MDA hurdles, which now also reflect the PRA's change to their pillar 2A methodology.

You can also see the major subsidiaries beneath Barclays Bank PLC, including the US IHC and Barclays Bank Ireland.

Taking these in turn, you will have seen in June that the IHC passed CCAR for the third consecutive year, with its projected capital ratios remaining above regulatory minimum required levels across all nine quarters of the test.

An expanded Barclays Bank Ireland has been serving customers and clients for more than 18 months, and stands ready to offer continuity after the end of the Brexit transition period.

Turning now to the other elements of our capital stack on slide 15.

#### **Slide 15: Capital structure well established**

We continue to target an AT1 level in our capital stack at or around the current ratio of 3.4%.

Our approach remains the same - we aim to maintain this headroom above the regulatory optimum to cover potential RWA and FX fluctuations, and to manage through potential redemptions and any refinancing activity.

Our call policy also remains unchanged and is based on the long-standing tests of "economics in the round", and of course is subject to PRA approval. The same principle applies to Tier 2 as it does for AT1s, with the added dimension of the regulatory value amortising beyond the call date.

### Slide 16: Successfully transitioning to HoldCo funding model

Turning now onto our HoldCo issuance plans.

Despite the challenging backdrop, we are pleased to have successfully issued c.£5bn equivalent of MREL this year and to report today a HoldCo MREL ratio of 32.4%.

This compares to a 29.7% expected 2022 requirement following the latest pillar 2A change.

Our MREL funding plan for 2020 remains unchanged at c.£7-8bn and, during the second half of the year, we will consider issuance across the capital stack depending, of course, on market conditions and investor appetite.

We may also opportunistically access the funding market via our operating companies, as you saw with the \$1.75bn 2-year senior bond issued out of BB PLC in May.

As you'd expect, we continuously revisit our issuance plans for RWA fluctuations when we do our capital planning. As things stand today, the original issuance guidance of c.£7-8bn remains the right range for us to be aiming for.

We will continue to look for opportunities to expand our green offering to the market via our updated Green Bond Framework published in Q4 of last year, where we have extended the eligibility criteria beyond UK residential mortgage assets.

### Slide 17: High quality liquidity position

Turning to liquidity.

The liquidity pool at £298bn and LCR at 186% represent a £135bn surplus above our 100% pillar 1 regulatory requirement, a significant expansion over the first half of the year.

The primary driver of the higher LCR position is the very strong growth we have seen in customer deposits, with 12% growth in the first half, consistent with the growth observed across the wider market, as sterling deposits increased by 8% in the three months to May alone. To put this into context, sterling money supply has grown at the fastest rate in over 100 years, largely reflecting the unprecedented volume of QE, and other public support schemes implemented by authorities around the globe.

In addition, as we mentioned when talking about our capital moves, over half the RCFs drawn during the initial period of COVID-related volatility in March have now been repaid.

Our robust liquidity position ensures that we are well-positioned to continue providing support to our customers over the coming months through what are uncertain times – not only in relation to how we recover from the ongoing COVID pandemic, but also ahead of any potential re-emergence of Brexit-related volatility as we approach year-end.

Let me make a brief comment here on LIBOR transition. We continue to play a leading role in driving an orderly transition via our representation in official sector and industry working groups across all major jurisdictions and products.

An orderly transition away from LIBOR remains a key priority for this year and next, and I am pleased to say that the execution of our internal LIBOR transition plan has not been materially impacted by COVID-19.

### **Slide 18: Interest rate sensitivity**

I want to take a few minutes to comment on the interest rate environment, given the developments that have taken place since my last call.

Clearly, the unprecedented cut to a 10bps base rate presents an earnings challenge for all UK lenders.

As a universal bank, we face this revenue headwind from a strong position. Our diversified revenue streams mean that, in the first half, 64% of our revenues were from non-interest income.

For interest income, our structural hedging programme helps smooth the income profile and we have been significantly growing the structural hedge programme over the last few years which helps to protect NIM in an environment such as this.

Of course, we have seen our peers on the European continent deal with zero and negative base rates for some years. And, we too have experience of it with our European businesses. This means that we stand ready to take management actions on both sides of our balance sheet, should base rates be taken to zero or even into negative territory.

We expect Q2 to be the low point for NIM, due to the one time hit of the lag associated with re-pricing deposits, which we anticipate will have rolled off for the second half of the year, with only the impact of margin compression continuing.

#### **Slide 19: Strategic priority to maintain strong ratings**

Finally, a comment on our ratings position which you can see on slide 19.

Maintaining strong ratings for all our entities with all agencies remains a strategic priority for the Group.

Given the macroeconomic backdrop, there are a number of our entities that either have a negative outlook or are on watch negative. These sorts of ratings moves have taken place across all industries – sovereigns, corporates and financials.

Indeed, S&P earlier this month highlighted that the number of credits with negative outlooks or on watch negative are at a record high.



We continue to highlight our credit strengths to the rating agencies, particularly on a relative basis, as we defend our current ratings levels.

#### **Slide 20: Conclusion**

So to conclude. We finished the first half of the year with a robust balance sheet and prudent capital and liquidity positions.

These were supported by resilient pre-provision profits, with our diversified business model enabling us to remain profitable after taking impairment charges of £3.7bn in the half, despite the stress we and the rest of the sector are undergoing.

And with that I'll hand back to Tushar.

#### **Slide 21: Q&A**

Thank you Kathryn.

We would now like to open the call up to questions and I hope you have found this call helpful.

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;
- MREL is based on Barclays' understanding of the Bank of England's policy statement on "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)" published in June 2018, updating the Bank of England's November 2016 policy statement, and the non-binding indicative MREL requirements communicated to Barclays by the Bank of England. Binding future MREL requirements remain subject to change including at the conclusion of the transitional period, as determined by the Bank of England, taking into account a number of factors as described in the policy statement and as a result of the finalisation of international and European MREL/TLAC requirements;
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