

Barclays Yankee Bank Credit Forum

“Perspectives from a Yankee Issuer”

Kathryn McLeland, Group Treasurer

11/09/2018

Slide 1: Kathryn McLeland, Group Treasurer

Good morning everyone and welcome to our 4th Annual Barclays Yankee Bank Credit Forum

This is my first time at this conference, but I have been at our Equity Financials Conference here in New York over the last 6 years in my previous Investor Relations role

It really is great to return to the world of credit

As everyone in this room knows, and certainly everyone in this building, this week marks the 10 year anniversary of the Lehman bankruptcy, and of course today is 9/11

A lot has changed in the global banking landscape since the Lehman collapse and the ensuing financial crisis, as global Regulators have, rightly, dramatically enhanced their prudential rules to reduce the risk of failure and improve the framework for resolvability

In the UK, this was complemented by the development of the Ring-Fencing regime which comes into effect at the beginning of next year

Slide 2: Restructuring of the Group completed post ring-fencing in April this year

Having taken on the role of Group Treasurer earlier in January, my first major task was indeed to ensure that the final stages of our ring-fencing plans were executed smoothly and successfully

As I'm sure you can appreciate, this was a very large undertaking for the Bank, not least for Treasury. But through meticulous planning and preparation, on the Easter weekend we successfully separated and stood up our Ring-Fenced Bank with £250bn of total assets, the first UK bank to do so

This included fully functioning systems and capabilities, new lines and new counterparty relationships

Within Treasury we replicated and connected 242 discrete systems and platforms to give both internal trading connectivity but also external trading capability

We also set up correspondent banking relationships with around 50 global banks for FX management, and became members of various clearing houses and custody firms ensuring that the ring fenced bank was truly independent from the rest of the Group

This completed the restructuring journey that Barclays had been on over recent years, with the creation of the divisional and legal entity structure that you can see on this slide

The Barclays UK division is now operating as the newly created Barclays Bank UK PLC legal entity

Barclays Bank UK is the third largest bank in the UK in terms of assets at £250bn, and with 24 million customers, it is a leading UK consumer and small business bank with strong financial performance, with an ROTE of nearly 19% in Q2



It is differentiated by its scale and its leading edge digital innovation – digital customer engagement continues to hit record levels with over 10 million digitally active customers at the end June this year, up 5% year on year. And lastly, its balance sheet is robust, with a CET1 ratio of 14.1% as at Q2, which helps support a strong credit rating - in the mid to high single A range with the major rating agencies

Barclays International is operating within the pre-existing Barclays Bank PLC legal entity. I'd encourage you to listen to Tim Throsby who will give the keynote speech at the Barclays Global Financial Services Conference tomorrow, where he will cover his plans and priorities for his business

You will know that BBPLC is a well-diversified bank in terms of customers, geography and financial exposures

Consumer, Cards and Payments delivers very attractive returns - with a RoTE of just under 29% in Q218. It remains an attractive growth opportunity for us particularly here in the US, with a credit card portfolio larger than our leading UK book, with net receivables in excess of US\$25 billion as at the end of June. It has exciting growth opportunities, through partnerships such as American Airlines and JetBlue

A key focus for our shareholders - the Corporate and Investment Bank returns have continued to improve, as a result of initiatives we have undertaken around talent, investment in our technological capabilities in sales and trading, and balance sheet optimisation

The benefits of these initiatives have started to flow through over the last three quarters

In Q2 for example, revenues in our Markets business were up 15% year on year in dollar terms – outperforming many peers, helping to deliver returns above our cost of capital

The BBPLC balance sheet metrics are also robust, with a 13% CET1 ratio for the solo regulated entity as at June 30. The consolidated entity also enjoys credit ratings in the single A range with the major agencies, largely aligned to that of BBUKPLC

Both of these operating companies sit below the Barclays PLC holding company, with the Group Service Company, Barclays Execution Services, providing not just operational continuity, but importantly also driving cost efficiencies across the Group to create capacity to re-invest in growth initiatives and digitisation

At the same time as preparing for ring-fencing in the UK, there was a parallel project, which continues at pace today, which is preparing Barclays to be robustly positioned for any potential Brexit outcome

Although I wouldn't characterise our Brexit preparations as needing to be anywhere near the scale or operational lift as our ring-fencing execution, what I would like to do for the next few minutes is outline how Barclays is preparing and positioning itself

I hope to leave you with the reassurance that we are approaching our Brexit planning in the same meticulous way we did our UK ring-fencing preparations

In fact, I believe that our structural reform programme for UK ring-fencing helped us understand the time, nature and scale of the Brexit project, for example around the technology work needed

When we look at how the market has been behaving, it does seem that Brexit concerns are overhanging both the equity and credit markets. And, I would say the most consistent area of questioning we receive from investors is how Barclays, and the wider banking sector for that matter - both UK and also international banks - are preparing for Brexit, and also of course what the potential outcomes might be from the upcoming negotiations

On that latter point, it is not appropriate for me to speculate as to what the eventual outcomes of the negotiations might be. We need to prepare for all potential outcomes

What I can say here today is that, whatever the outcome of Brexit, we are working to avoid disruption to any of our stakeholders and make sure that our primary focus remains on serving our customers and clients

And, as you know, we've been saying for the last two years since the EU Referendum, that we are preparing for a "Hard Brexit" scenario

When I think about Brexit and the potential impacts, including loss of single market access, I think about it in terms of two broad categories

Firstly, our ability to continue to provide passported activity for EEA-domiciled clients in this scenario and secondly the impact on the UK economy

In terms of the first element, our Brexit plans are well advanced, incorporating an expanded Barclays Bank Ireland, our pre-existing Irish subsidiary which is a wholly-owned sub of Barclays Bank PLC, and which we intend to use to provide passported activity to potentially impacted clients

Slide 3: Preparation for continuity of business in the event of Brexit

We are planning for the expanded Barclays Bank Ireland to be operational by March of 2019, in-line with the anticipated EU withdrawal date, with new business facing EEA-domiciled clients being conducted from BBI by this date

The client migration will be executed over time, using a combination of consensual negotiations and a Part VII court process similar to what we did for the creation of the UK ring-fence bank

We currently expect that the majority of the existing 8 EU branches and their positions will transfer during 2019

Although, of course, the announcement of a political agreement on a transition period until December 2020 may, if ratified as part of the broader withdrawal agreement, allow for further time for our clients **and** the broader industry to restructure their operation

BBI will consist principally of the current Corporate, Investment Banking and Private Banking activity across Europe, and the Barclaycard consumer business we have in Germany (where we are the largest credit card issuer)

To give you a sense of size, taking EEA-domiciled clients and assumed migrated business, the impacted balance sheet is about 15% of Group total assets. And, in terms of revenues, it is less than 10%, so very manageable in the context of the broader Group

Turning now to the second element - namely the impact of Brexit on the broader UK economy and the consequences for the UK banking system

Slide 4: Prudently managing credit risk in the UK

Barclays benefits from meaningful geographic diversification, which means we are perhaps less exposed than other more domestically focused UK banks

While just over half of our revenues come from UK customers and client, over 35% comes from US counterparties, given our strategy to be diversified across our two home markets of the UK and US

And a key driver of our strategic growth plans is the US credit card business I've already mentioned

We are not, however, naive to the risks to the UK economy, so before I outline how Barclays is positioned from a credit risk perspective in the face of Brexit, I thought it might be helpful to touch on some of the key economic indicators we track closely in the UK

It is fair to say the UK macro-economic environment – although perhaps uninspiring, certainly compared to the strong data we’ve seen recently here in the US - does continue to be benign, despite the Brexit uncertainties

The most recent inflation report in the UK showed the Consumer Price Index remained broadly stable at 2.5%

UK unemployment is now at 40 year low levels of 4% and spending over the summer was robust, helped by the warm weather in the UK and, perhaps surprisingly, England’s strong performance in the soccer World Cup. This also benefited UK GDP growth - over the three months to July the growth rate picked up from 0.4 per cent to 0.6 per cent, the highest since last summer

Earlier this year we also saw the second UK base rate hike to 75bps, which should be constructive for UK banks NII, including Barclays. Should we see a transitional agreement or “Soft Brexit” agreed over the coming months as part of the Brexit withdrawal agreement, market expectations are currently for another rate hike, although I should say that our own economist is more bearish, expecting UK base rates to say flat

As the largest credit card issuer in the UK, we have access to a rich source of spending data, which we track in detail on a monthly basis

Consumer spending grew 4.5% year on year in August 2018, according to the latest Barclaycard data. This is the fourth consecutive month with spending growth over 4.5%, which is the strongest consistent growth in almost 7 years

Alongside this higher summer spending growth, consumer confidence also rebounded in August. Although the consumer confidence measure remains negative, it has been so since early 2016, pre the EU referendum. The breakdown, however, does show plans to save outweigh intentions to make major purchases

It is fair to say Brexit-related uncertainty continues, with business sentiment dropping, driven by a general caution over the future outlook, weaker house price growth and of course the weaker pound

In our Corporate Banking business we have seen subdued Corporate lending and increased deposit balances, as UK Corporates have deferred investment in this period of uncertainty

Given the uncertain economic outlook, we have refined further our longstanding conservative approach to credit risk in the UK in the face of Brexit, in order to minimise any potential impact on our portfolios

As a result, our bias is to grow the secured lending book over unsecured lending in the UK

This is evidenced by the UK mortgage growth we have achieved over the last 12 months – an increase of £5.5 billion -- whilst unsecured balances have remained broadly flat

This growth has been achieved within our risk appetite - our stock and flow LTVs are stable at below 50% and 65% respectively

Buy-to-let lending also remains a modest proportion of our portfolio at 12%

Since the 1950s, the largest year on year quarterly percentage UK house price fall was mid-teens at the peak of the financial crisis 10 years ago, and quarterly house price growth has continued to be in the 2 to 3% range since the EU referendum result. Given these statistics, the conservative risk profile of our mortgage book positions us well for any downturn in the UK property market as a result of Brexit

In our UK unsecured books, in addition to keeping balances flat, we have tightened our lending criteria. For example, in UK cards, while we have maintained our market leading position, about two years ago we started reducing the duration, and also the proportion of long dated balance transfers

30 and 90 day arrears rates on UK cards have continued to remain at historically low levels ever since the Brexit vote, though we are of course watching changes in unemployment data closely, which would potentially drive higher delinquencies on the portfolio

The Bank approaches the final strait of Brexit negotiations, very comfortable with its robust capital, liquidity and funding positions. Let me touch on each of these in turn

Slide 5: Robust capital, liquidity and funding positions

The Group CET1 ratio returned to our end state target of around 13% at the end of Q2. The 86 basis points of CET1 accretion from profits in the first half demonstrates the strong underlying capital generative capacity of the Group

We also made meaningful progress in resolving legacy litigation and conduct issues, including the RMBS settlement with the DOJ for \$2 billion, which puts a significant headwind to the Group capital position behind us. This should also put us in a better position for stress tests which I will touch on in more detail shortly

Our expectation of an end-state Group CET1 ratio of around 13% provides us with a stress test capacity in excess of 460 basis points, consistent with a 160 basis points management buffer above our current expected end-state fully-loaded CRD IV MDA hurdle of 11.4%

If I compare Barclays and the other UK banks' relative CET1 ratios to our US and European counterparts, as can be seen in the first chart on this slide, both Barclays and the average CET1 ratios of the other UK banks are higher than our peer banks in other regions, given the Regulatory approach taken by the BOE and the PRA

We often receive questions as to why we feel our end state CET1 ratio target of around 13% is appropriate, given some of the more domestically focused UK banks, have higher target ratios. This can be explained by considering two key

drivers - the level of MDAs at each bank and secondly, the size of management buffers. In particular, Barclays has a lower MDA at 11.4%

Another important point to highlight - is that at H1, BBUK PLC, our ring-fenced bank printed a CET1 ratio of 14.1%, more aligned to other UK banks. Although this ratio is higher than the Group end-state CET1 ratio of around 13%, this higher ratio is able to be absorbed within the capital requirements of the Group

The Barclays Group liquidity pool continues to be large and conservatively positioned, ending Q2 at £214 billion, with 70% in cash held at central banks. The Pillar 1 LCR was 154%, a surplus of £73 billion to the end-state 100% requirement, up from 96% at the end of 2013. This conservative liquidity position is consistent with other UK and European banks, although higher than our US peers

As I have said before, the quality and quantum of our liquidity are inexpensive credit strengths in a low rate environment, particularly given the near term outlook for the UK

Over recent years we have reduced our reliance on short-term wholesale funding, with the proportion maturing in less than one year now only 27%, down from 44% at the end of 2013. As a result, the Group liquidity pool is 5.4 times wholesale funding maturing in less than one year

And lastly on funding, we are now much less reliant on wholesale funding overall, with our loan to deposit ratio at 83%, as our deposit base continues to grow, increasing by £5 billion in H1 this year

We are clearly alert to the potential volatility in the funding markets, but are confident that we are conservatively positioned given this balance sheet liquidity and funding profile

Finally, as you know, the Bank of England stress tests in the UK for the last two years have been seen as addressing a difficult Brexit scenario, with the key

assumptions being a 5% fall in UK GDP, concurrent with a global recession, 9.5% UK unemployment, a fall of 33% in UK house prices and a fall in Sterling of over 30%

To summarise - the key message I want to leave you with today is that in my view, Barclays is conservatively positioned in the face of Brexit and although the UK economic environment continues its benign trend, we are planning for a hard Brexit scenario, so are well prepared for any eventuality over the coming months

And importantly our financial results show we are well on track to hit our ROTE targets for 2019 and 2020

Slide 6: Translation to HoldCo funding model continues steadily

Before I conclude, I would like to make some comments on how we are progressing with our MREL issuance plans

As many of you will know, our required level of HoldCo funding is driven by our bank specific MREL requirements issued by the Bank of England. We expect a Group end-state 2022 requirement of 29.1% of RWAs to be our binding constraint once OpCo legacy capital instruments no longer qualify

This is prior to any MREL management buffer, which we would expect to hold above this minimum requirement

At June 2018, our HoldCo external MREL ratio was 26.5% and 29.2% on a transitional basis. Hence, we already meet interim requirements as OpCo legacy capital continues to qualify until 2022

Looking back to the end of 2015 - when we had just £14.5 billion of HoldCo paper outstanding - we have issued a total of £22.6bn over the subsequent two years

This year has continued that strong issuance trend – with as we've raised just under £9 billion equivalent in MREL from the HoldCo YTD - in both senior and AT1 form, with call dates or maturities ranging from five to fifteen years

In the US dollar market - we printed a \$2.5 billion AT1 deal in early August, which followed the \$4.5 billion three-tranche senior deal we issued in May, in both fixed and floating rate format

While the US Dollar market remains our largest sources of term funding, we are actively diversifying our MREL funding sources, as seen in the AUD 600m deal we did earlier this year, and we are currently in the JPY market with a Samurai transaction

We are still intending to issue around £10 billion in total from our HoldCo this year

For the remaining issuance this year, our current preference is for senior debt, with AT1 and Tier 2 a lower priority. However, as always, our issuance plan will be subject to market conditions and investor appetite

The Yankee market continues to be a major source of funding for us and I would like to once again thank you for the support you have shown the Barclays credit over the years

Slide 7: Focused on profitability and returns and capital targets

So to conclude, I will re-cap some of the highlights from the latest Q2 results

With the restructuring of the Bank now complete, and with significant legacy issues behind us, we were able to print a clean quarter, where our results demonstrated the earnings capability of the Group - as we reported a statutory ROTE of 11.8%

The Bank's results over the last few quarters clearly demonstrate the progress we are making towards our objective of greater than 9% and greater than 10% Group

returns in 2019 and 2020 - with management focus entirely on achieving these targets

Group income was up 10% year on year, while costs were down 3% excluding litigation and conduct, resulting in positive jaws of 13% and the Group reporting a cost: income ratio for the quarter of 59%, in line with our target of less than 60%

The Group CET1 ratio returned to our end state target of around 13%, evidencing the underlying capital generative capacity of the Group

We were particularly pleased with the CCAR stress test outcome for the US IHC at the end of June, passing on both a quantitative and qualitative basis, which was testament to the careful capital planning for this entity since its establishment in 2016

Finally, in terms of underlying credit conditions, the UK economic environment continued its benign trend. Having said that, given the uncertain economic environment, we conservatively positioned in the UK as we approach the conclusion of the Brexit negotiations

And with that I'd be happy to take any questions in the time we have remaining

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- MREL is based on Barclays' understanding of the Bank of England's policy statement on "The minimum requirement for own funds and eligible liabilities (MREL) – buffers and Threshold Conditions" (PS30/16) published on 8 November 2016 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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