

Barclays Global Financial Services Conference**14 September 2020****Transcript of Q&A with Jes Staley, Barclays Group Chief Executive Officer****(amended in places to improve accuracy and readability)****Jason Goldberg, Barclays**

Good morning, I'm Jason Goldberg, and on behalf of the entire Barclays Financial Services Equity Research team worldwide, welcome to our 18th Annual Global Financial Services Conference. While we are virtual this year, we aim to provide you as close to the same experience as prior years, with all the presentations and meetings conducted via video.

Thank you for joining us in what I'm sure will be an informative three days from a record 212 financial companies and 24 fintechs. In Barclays, we have the perfect company to kick off the Global Financial Services Conference, as it's diversified by business, by customer and clients, and by geography. Its businesses include consumer banking and payments operations around the world, as well as a top-tier full-service global corporate and investment bank, all of which are supported by a services company.

With us this morning we are very pleased to have with us Jes Staley, Group Chief Executive of Barclays. Good morning, Jes.

Jes Staley, Group Chief Executive Officer

Good morning, Jason. It's good to be with you. And again, congratulations for bringing together what I'm sure will again be the largest conference in the financial industry, so a real testament to the following that you have and the franchise that you've built with Barclays. So it's good to be with you, Jason.

Jason Goldberg

Appreciate that. You know, maybe the best place to start is if you can maybe walk us through what Barclays' experience of the crisis has been so far, and your priorities of the business during this time.

Jes Staley

So when the COVID-19 crisis began, and the consequential contraction in the global economy was upon us, we set three priorities within the Executive Committee of Barclays.

The first one was to make sure we preserve the financial integrity of the bank. Our ability to provide financing around the globe from consumers to large corporations is obviously dependent upon the financial strength and resiliency of the bank. And so, that was very much amongst our priorities.

The second one was around the world, but particularly in the United Kingdom, that we seek to play a role as being a partner with governments as they exercise fiscal policy and monetary policy in order to try to manage the economic pain created by the pandemic. In our view, banks have a unique opportunity right now, whereas many people would argue that the banks were the catalyst for the financial crisis in '08 and '09 leading to the economic crisis in those years. To fast-forward to now, given

the capital strength that I think the banking industry is showing, the high levels of liquidity that the banking industry is showing; we have a real opportunity to partner with governments and with regulators to act as a firewall, do as much as we can to minimise the challenges and the stresses that are created in our economies because of this pandemic. And so, we've really been focused on working with the Bank of England, with the ECB, with the Federal Reserve and with governments to continue to provide oxygen, if you will, which is the financial markets to our customers and clients around the world.

And the third one I think, as all responsible businesses, very much focused on the health and well-being of our employees. We have [approximately] 85,000 employees at Barclays. Heroically [some] 20,000 have continued to man our call centres and our branches around the world, and particularly in the branches, these are locations that have a lot of social traffic. Keeping in front of our customers and clients, particularly those that are vulnerable at a time like this, they really have been heroic. And then to have some 60,000 people managing the complexities of the global financial markets, most of them working from their kitchen table. And what has happened in terms of our technologists and people in operations with controls and compliance, that we can manage all this complexity and engage with hundreds of thousands of customers and clients around the world, and keep a very complicated universal bank functioning at a very high level is a real testament to our people and the investment that we've made in our people, and staying focused on their well-being has been one of our three priorities.

Jason Goldberg

Good stuff. I guess the biggest focus of investors at the moment seems to be credit costs. Given the major impact government supported initiatives have had on your customers and clients, how comfortable are you with your impairment outlook now that these are starting to be lifted? And maybe just discuss what areas of the loan book you're most concerned about.

Jes Staley

You know, we've always said or I've always said that the biggest credit risk at Barclays is our unsecured consumer loan portfolio. The correlation of losses with the credit card business to unemployment is very high. And obviously we were all looking at some very scary unemployment numbers, as the pandemic really took off. We took a sizeable impairment reserve in the first and second quarter, of £3.7 billion. We remained profitable in both of those quarters, despite such a high impairment reserve. When you look at the underlying economic assumptions that we used, that resulted in that level of impairment reserve, we believe then that we were quite conservative. In the actual performance in the economy and in unemployment and GDP, et cetera, it has in truth been better than we modeled when those impairment numbers were produced.

So there are some encouraging signs. As I said earlier on, there were two tsunamis that are hitting each other. One is the extraordinary economic contraction caused by the pandemic. But the other is an unprecedented response by governments through fiscal policy and central banks through monetary policy, trying to sustain the economy, particularly businesses, small businesses, and the financial stability of consumers. And how those two influences or those two forces will deliver in the second half of this year and going into 2021 is a very difficult thing to call.

So we've been conservative in terms of our reserves. We've maintained the profitability of the bank. We have the highest level of capitalisation in the history of Barclays, and we're keeping our eye very much on the consumer, particularly our unsecured consumer portfolio. What we're seeing right now is payment holidays have come to an end in the UK and elsewhere. It's pretty encouraging, actually, how the average consumer has started again to make their normal payment streams, whether it's secured in the mortgage portfolio or unsecured in the credit card portfolio.

The direction of travel - we still have a lot of challenges in front of us; as the government supports begin to have a declining degree of influence, we don't quite know what's going to happen – but right now I think we feel we're in a better place than we might have felt a couple months ago.

Jason Goldberg

And I guess how conservative do you think you've been in your assumptions, just given a pathway to this economic recovery is still fairly uncertain?

Jes Staley

Only time will tell. We have in our models forecasted a fairly prolonged contraction in the global economies, and a fairly slow recovery in employment numbers. So we think that we are conservative, but none of us know what the pandemic is going to do. Will there be a second wave? Will there be a third wave? Have we really made a significant impact on the mortality rates? How soon is a vaccine going to be available to all of us globally? How quickly can it be used? So a tremendous number of uncertainties.

One of the advantages that I think we all recognise – it's got a headwind for us in the banking community – but low interest rates are on one level a blessing, given the economic challenges that we're having. The amount of financing that has been raised by governments, by sovereigns, by major corporations is unprecedented. And that this amount of borrowing can go on to provide an economic stimulus into the economy whilst interest rates in many cases on a real basis are negative, even for corporates, we should feel pretty good about that, even though those very low interest rates create a headwind for the banking industry.

Jason Goldberg

I think that's a good point. Maybe we delve into that a bit more. Because banks are experiencing a challenging outlook for consumer revenues, given the low interest rate environment. You've seen a drop-off in spend, in card balances, and just really lower activity across the board. What trends are you seeing in the UK, as well as the US, that just gives you confidence on your outlook for those businesses?

Jes Staley

You know, I talked about our first priority being the financial resiliency or a strong financial position as a bank. The first thing you look to when you think about your economic or financial integrity is the balance sheet. That's sort of the bedrock of how financially strong a bank is. And so when we looked at it, and we had the highest capitalisation ratio we've ever had, our liquidity coverage ratio got over 180%. The balance sheet of this bank is very strong, even with very conservative assumptions around our credit exposures.

So we feel good about the principal foundation of the bank. And part of that capital strength reflects the fact that low interest rates have allowed the major economies that we participate in to refinance themselves and provide some degree of financial stability across industries, across small businesses. And that clearly, including the fiscal programs that the governments have imposed, that's helped the capital strength of Barclays.

The headwind that we're all going to face is as interest rates stay low and the yield curve flattens, that will have an impact going forward on the revenue stream of I think the banking industry, including Barclays. But I'd rather wrestle with that revenue / cost issue and have a very strong balance sheet than the other way around.

Jason Goldberg

Makes sense. So maybe we delve more into the US card business, obviously a big business for several of the companies I cover. Do you expect Barclays' reliance on airline partner programs to lead to further

revenue headwinds as the travel segment remains under pressure? And just maybe what's the outlook there?

Jes Staley

So another comment I'd make that I think we witnessed in both the US and in the UK, and to a degree in Germany as well with our card business there: generally, as you go into an economic slowdown, what you expect is the consumer or the small business, they'll borrow a bit more, draw a little bit more down on their cash in order to sustain a standard of living or maybe an investment base for their small business. This time around, we didn't see that.

Actually, what I think we saw was fear. And what the consumer and the small businesses did both in the US, UK and Europe, is focus on their balance sheet. So what we saw is receivables levels in our UK cards and our US cards go down, and our deposit levels go up. That's why our liquidity coverage ratio just shot through the lights, because of deposits coming into the bank.

As a credit matter that our receivables have come down, decreases our credit risk, and we [expect to] see that in our future impairment numbers, but it is a weight on your revenues, because it is that spend level and it is the borrowing level, particularly in the UK, which is important to your revenue numbers.

What we're seeing is clearly less travel, like everybody. But in our major credit cards that are tied to airlines: American Airlines, JetBlue, and we're about to [launch] another major co-brand relationship in the airline industry; the actual spend numbers are not too far distant than what the other credit card companies are experiencing as well.

So the amount of times that someone is going into their local restaurant or buying something from their local pharmacy and they're using an American Airlines Advantage card versus some other co-branded card or branded card; our spending numbers are not that far different than the industry. Now we may have a little bit more in the travel and leisure spend than some credit card platforms. But overall, we don't think that we're under any medium-term or long-term disadvantage with the nature of our co-brand portfolio.

But for sure, we saw it in the second quarter in particular, pressure on both our UK and US consumer business, principally driven by those unsecured consumer loan books. And in our case, handsomely compensated by how our investment bank did, particularly in the markets business in the first and second quarter, allowing us to take the impairment charge, allowing us to stay profitable for the first half of the year, and feel confident in the capital strength of the bank.

Jason Goldberg

You mentioned the corporate and investment bank. But before we turn to that, payments in general is certainly a topic on investors' minds. And I know it's a key strategic area of focus for Barclays. Just maybe talk to what are the latest trends you're seeing and how it's impacting how you think about the business longer term.

Jes Staley

Yeah, it's very interesting actually. One of the things that a bank like Barclays needs to do in the UK is we need to balance our role as a utility in providing finance across this country to consumers, businesses, et cetera. But we all recognise that increasingly in the future of finance, it's going to be a digital world. And the economics of delivering our financial services through an award-winning mobile banking app where we've [around] 9 million consumers using that app as their principle instrument for managing their finances, to what goes on in the internet, et cetera. That digital bank is a very important focus of investment for us in driving payments through those digital channels.

One of the interesting things that happened because of COVID-19 is the movement from cash to online and mobile has been quite extraordinary actually. The level of cash payments in the UK are down let's

say roughly 40%. The actual amount of online payments right now year-over-year is up. So COVID-19 has actually, if you will, pushed or pulled a lot of consumers to embrace the digital platform faster than they otherwise would have.

And so overall payments – and again [we are a] very large merchant acquirer in the UK, [and a] very large credit card, debt card [issuer]; 24 million consumers touch us overall, we roughly touch about a third of all commerce in the United Kingdom – the overall numbers ex-cash are actually up slightly. You bring in the cash component and overall spend year-over-year recently is down, but far less than it was a couple of months ago. So we see a recovery. We're still weak relative to last year by a modest degree. But encouraging for the medium and longer-term, the consumer has accelerated their migration to dealing digitally with the bank, as opposed to walking into a branch and asking for cash.

Jason Goldberg

Interesting. Now let's kind of maybe shift gears obviously to what's near and dear to my heart, the corporate and investment bank. You know, certainly one of the highlights of the first half performance was CIB and particularly the Markets business. Do you feel this is sustainable, or should we expect a moderation in the back half of the year?

Jes Staley

You know, one of the things that a lot of people have talked about, and I think the risk profile of a corporate and investment bank is very different today than it was in 2006 and 2007, particularly in the investment banks. The amount of directional exposure that I think the modern investment bank has is a fraction of what it was going into the last financial crisis. And so when markets go up, people shouldn't correlate that with an improvement in our investment banking or markets revenues, anymore that when markets go down, they shouldn't assume that our markets revenues have gone down.

What they can assume is, if the velocity of movement – up, down, or up and down – as that goes up, our performance will get better, because we truly are playing an intermediary role where our risk that we take home directionally overnight is, again, a fraction of what it was before. So when you had the enormous volatility moves in rates and currencies in the first two quarters of the year, we had record performance in our markets business in Q1 and Q2. You get clearly in the third quarter, volatility moderated quite significantly. The actions by central banks in terms of generating dollar swap lines and what that did in putting liquidity in the system, moderated quite a bit the volatility. And therefore, I think it's safe to assume that markets and CIB revenues would have a corresponding moderation. But then you get a week like last week, where you had extraordinary moves in the equity markets, and again, that brought its own type of volatility, and people should recognise that.

The other thing I would say is the first half of the year was very much driven by the markets franchise, by transactions in the secondary cash markets and derivative markets with the major buy-side firms. What I think we are seeing and are going to accelerate in seeing is a pickup in the primary markets. One of the things that we all need to recognise is the powerful role that the capital markets have played in funding the desire for economic stability in the face of the COVID-19 environment. On one level, we have transmitted £23 billion of loans in the UK coming from bounce-back loan programs, CBILS, CCFE, et cetera. Compare that to, we have been a manager in the [second quarter] of this year of raising three-quarters of a trillion dollars of debt and capital through the debt and equity markets around the world. That's a staggering number.

Just in the UK [...], we've been a manager of delivering c.£6 billion of equity capital to UK businesses through the capital markets. And with low interest rates, the access to that amount of financing, I do think you're going to see a recovery in the M&A world.

And then to top it all off, you see right now I think in September there will be more equity capital raised in the equity capital markets primarily in the United States than has been raised through the first eight months of the year. It's an extraordinary explosion in the raising of capital, a lot of it going to

technology, but interestingly, a lot of it going to SPACs. So that's another phenomenon that I think may be a legacy that comes out of the financial response to the pandemic and to the economic crisis.

But so, being able to balance our own balance sheet and extension of credit off of our bank balance sheet by being a major underwriter, tapping the debt and equity capital markets, I think that makes for a very healthy business model for us.

Jason Goldberg

That it does. Another I guess area that investors seem to be focused on is expenses. Presumably at some point, if revenue levels don't recover, Barclays will need to take a look at its cost base. Are there any opportunities from what you've learned during the crisis so far that you're looking at on the cost front?

Jes Staley

You know, I think that we have by necessity had to show much greater organisational flexibility in terms of how we staff with different areas of the bank, engaging with our customers and clients. I'm sure for every institution in the world, the pressure on call centres has gone up beyond anyone's expectations or stress tests, or whatnot. And being able to redeploy people that can handle a stressed customer or handle a customer that's got a particular financial challenge with their mortgage or with their credit card, showing organisational flexibility is something that I think we've even surprised ourselves as to how effective we have been.

That being said, this move to digitisation creates cost opportunities for the bank. But I go back to the second and third priority that I talked about, doing our part to try to act as a firewall with the economic response to the pandemic. We don't want to add to financial pressure at this particular time. And I think we need to moderate our expectation around cost: income ratios in a consumer business, for instance, so that we are making the right decisions that hurt our revenues, whether it's payment holidays or overdraft interest waivers or fee waivers, and preserving an employee base during this crisis. I just don't think it would be the right thing to do. And so there are opportunities that we've seen around cost. We will get to it at the right time. We want to make sure that given the pandemic we are making the right choices for the communities that we live and work in, and for the people that have been so dedicated to Barclays.

Jason Goldberg

And Barclays' capital position was one of the highlights at second quarter earnings. I guess what are you guiding in terms of capital trajectory from here, just given all the unknowns out there?

Jes Staley

You know, obviously a very significant conversation occurred with our regulators, as we got to the point of paying a dividend this year on the back of earnings last year, and the decision to suspend that dividend payment. You know, I think we've all needed to recognise that the government, rightly so, was almost on a war footing as the pandemic really, really grabbed hold of the economy and the danger of what we were facing was being realised.

And having a resilient, strong banking system, I think all of us recognise is critical if we're going to navigate this economic crisis. We've been profitable in the first half of the year in both quarters. We were encouraged by the current environment that we are in, and the current trajectory of the bank. We have a very large buffer, with our [reported] CET1 ratio at 14% and better, over what our minimum capital level is before any management action would have to be taken. And as we've all said, we're going to sit down with our Board, the decision is in their hands. And then engage in a conversation with our regulators in the fourth quarter of this year, as we have a good sense of how the year will end. And then obviously communicate where we are in terms of our capital plans at our year-end results early in 2021.

Jason Goldberg

Helpful. And then maybe finally, just looking a little further out and beyond the crisis, just maybe what opportunities are you most excited about going into this inevitable recovery?

Jes Staley

Well, I still think the role of technology in finance is the most exciting thing going on in our industry. In our platform in the UK, where we bring together all the consumers that use our mobile banking app, with all of the small businesses and corporate customers that bank with Barclays, and what we can do with the information and the data driven by those two sectors for the benefit of both sectors is extraordinary. We just launched a program called Digital Receipts, where you walk into a store and you buy something; rather than getting a paper receipt and you can use contactless credit card, the receipt will be in your Barclays mobile banking app. And we will have the data behind that purchase by every item that you purchase. We will accumulate that data. If you wanted to return something that you bought through that platform, all you have to do is show the digital receipt on your mobile banking app, and you can make that switch.

So innovations like that are going to profoundly change how we're engaging with our merchant clients and with our customers, all the way to what we're seeing in terms of electronic trading in our markets business, the volumes in trading cash equities had record numbers, and being able to handle all those trades, clear them, close them with very little if any human intervention. So the error rates go down. The economics of that are quite attractive. So what technology is doing to finance is extraordinary. And I think actually another silver lining in the COVID-19 experience is again the technology platforms of these large banks have been extraordinarily resilient, have been very safe. The operational resilience demonstrated in times of great stress has been a real asset for the industry. We amply demonstrate the importance to the economies that we work in, given our size and scale, and client and customer reach. And I feel quite good about where we are in terms of the technology innovations coming across and creating opportunities for Barclays.

Jason Goldberg

Super. Jes, I know you have a busy day, so I thank you for taking the time out and speaking with us this morning.

Jes Staley

Good luck, Jason. And again, welcome everyone to the conference. This is a great event for us. We deeply appreciate the loyalty of our clients all around the world. It's a fascinating time for the financial industry, and I just wish everybody to be safe, and your families are well, and hope you enjoy the conference over the next couple of days virtually.

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