

Barclays PLC HY 2018 Results**Fixed Income Investor Conference Call Speech****Tushar Morzaria, Barclays Group Finance Director****Kathryn McLeland, Group Treasurer****Slide 2: Tushar Morzaria, Barclays Group Finance Director**

Good afternoon everyone and welcome to the fixed income investor call for our half year 2018 results

I'm joined today by Kathryn McLeland, our Group Treasurer as well as Miray Muminoglu, our Head of Capital Markets Execution

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

Slide 3: Q218 Group highlights

Our Q2 results clearly demonstrated the progress we are making towards our objective of greater than 9% and greater than 10% Group returns in 2019 and 2020 respectively. We reported a 12.3% Group RoTE, excluding litigation & conduct, and a statutory RoTE only slightly lower at 11.8%

This was driven by a year on year increase in PBT of 44% in the quarter to £2 billion, excluding litigation and conduct

Both Barclays UK and Barclays International reported double digit returns for the quarter at 18.8% and 12.2% respectively

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%

As in Q1, we reported lower impairment, down 46% year on year, reflecting further single name recoveries in corporate lending and higher than expected seasonal repayments on certain US card balances

In terms of underlying credit conditions, the UK economic environment continued its benign trend, as arrears rates remained at low levels in UK cards, while arrears rates in US cards improved slightly on Q1, as you can see on slide 4

Slide 4: Prudently managing credit risk in both the UK and US

Before I hand over to Kathryn, I want to briefly touch on our approach to credit risk, as I know it's an ongoing area of interest for our debt holders, in particular with the advent of Brexit and its potential impact on our UK portfolios

As we have said previously, given the uncertain economic outlook in the UK, 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.

This growth has been achieved within our risk appetite - our stock and flow LTVs are stable at below 50% and 65% respectively, and we have successfully balanced this with achieving a NIM of 324 basis points for H1 in Barclays UK, within our guidance range of 320 to 330 basis points for the full year. Buy-to-let lending also remains a modest proportion of our portfolio at 12%

In our UK unsecured books balances have remained stable and we have tightened our lending criteria. For example, in UK cards, while we have maintained our market leading position we have reduced the duration and proportion of long dated balance transfers in line with our strategy

By contrast, in the US, our market share is more modest, being the ninth largest credit card issuer by receivables, and so we feel the 10% CAGR balance growth we seek is realistic. We believe we can grow balances around this rate within our risk appetite, as we continue to build out our partnerships model with brands that attract customers at the more prime end of the credit spectrum

In summary, the growth aspirations we have for our businesses and our returns targets are achievable within our conservative risk appetite

With that, I'll hand you over to Kathryn, who will provide a comprehensive update on our capital, funding and liquidity positions, as well as other areas of particular interest to our creditors

Slide 5: Kathryn McLeland, Group Treasurer

Thank you Tushar and to everyone for joining the call today

The first half of 2018 included a number of key achievements for Barclays

We successfully executed our ring-fencing plans on 1 April, the first UK bank to do so - nine months ahead of the regulatory deadline

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

With the restructuring of the bank now complete, management is fully focused on achieving the Group's targets

The Q2 results which Tushar ran through earlier are evidence that this focus is resulting in increased profitability

We have also made meaningful progress in resolving legacy litigation and conduct issues in the first half, 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

With that in mind, I will begin by looking at the Group capital and leverage progress in more detail, which you can see on slide 6

Slide 6: Strong Group CET1 and leverage ratios

Since our strategy update announced with the full year 2015 results, the CET1 ratio has accreted strongly from 11.4% to 13% as at the end of June, which has been achieved whilst also completing the restructuring of the Group. We accelerated the Non-Core rundown in a capital accretive way and sold down our stake in BAGL, achieving 80 basis points of CET1 ratio accretion through regulatory deconsolidation, including an additional 11 basis points on full regulatory deconsolidation this quarter

From 1 January 2018, we adopted IFRS9, which resulted in a day1 reduction in the CET1 ratio of 34 basis points. As guided by the PRA, we have adopted transitional capital relief for IFRS9 over the first five years of implementation and the transitional ratio remains the key capital metric for us from a capital planning perspective

Turning now to leverage

We are comfortable with the Group's strong leverage position, being well above the regulatory minimum levels

We continue to view leverage as a backstop capital measure, with the risk-based measure being the binding constraint for the Group

As a reminder, for consolidated leverage requirements, we currently need to comply only with the UK regime which exempts cash held with central banks

From Q1 of this year our disclosure obligations changed and we now report UK leverage on both a spot and daily average basis. We need to be in excess of our leverage requirement every day of the year, however, the year-end spot ratio remains the starting point for stress tests

At H118, the UK spot leverage ratio was 4.9%, comfortably above the 3.7% minimum UK requirement today and the expected 4% requirement applicable from 2019

The year-end 2017 spot ratio of 5.1% represents a surplus of at least 130 basis points to the maximum stress test hurdle rate this year. Consistent with CET1, the leverage hurdle may be reduced to the extent of the 0.525% GSIB buffer to mitigate the incremental impact of IFRS9

We would also expect that the resolution of certain litigation and conduct matters should benefit the leverage stress test drawdown, where it was a material component in previous years, as with the risk weighted capital drawdown

Turning now to slide 7 and the movement in the CET1 ratio in the quarter

Slide 7: Capital accretion driven by strong profitability

The CET1 ratio accreted by 30 basis points in Q2 to 13%, evidencing the underlying capital generative capacity of the Group

The increase was driven by 44 basis points of profit generation in the quarter, 11 basis points from the Barclays Africa regulatory deconsolidation, and 10 basis points from other net favourable movements

This was offset by three impacts. The first of these was driven by market movements – namely 16 basis points from adverse movements in the Fair Value through Other Comprehensive Income reserves, primarily related to our residual stake in Barclays Africa – which was impacted by a weaker BAGL share price and Rand versus Sterling.

The other two impacts on the ratio in the quarter were 13 basis points from the dividend accrual and five basis points from planned pension scheme contributions, both of which will recur in Q3

At 13% we are back to our end state CET1 ratio target

Turning now to slide 8 and a reminder of the components of this end state target

Slide 8: Managing Group capital position above mandatory distribution restrictions

Our expectation of an end-state Group CET1 ratio of around 13% is consistent with a 160 basis points management buffer above our current expected end-state fully-loaded CRD IV MDR hurdle of 11.4%. It also provides a stress test capacity in excess of 460 basis points. We calibrate the management buffer periodically with reference to our regulatory requirements, including the PRA buffer, as well as stress tests. The resolution of legacy litigation and conduct issues should be helpful in this regard, and we expect to periodically revisit the management buffer

It is worth spending a brief moment on IFRS9, which will be incorporated into the Bank of England stress test for the first time this year

Based on guidance from the Bank of England, we expect the hurdle rate to be reduced by up to the quantum of our 1.5% CSIB buffer to mitigate the incremental impact of IFRS9 under stress. We also expect the Pillar 2A component of the stress test hurdle rate to reduce, as its fixed components represent a lower proportion of the typically larger RWAs under stress

Moving on now to our MREL position which you can see on slide 9

Slide 9: Transition to HoldCo funding model continues steadily

We remained active in the debt capital markets in the first half of this year, issuing £6.2 billion equivalent from the HoldCo all in senior debt, with maturities ranging from six to fifteen years

The currency mix included 1.5 billion of Sterling, 1 billion of Euros and 4.5 billion of US dollars

We were also pleased to diversify our currency mix by issuing in Australian dollars and Swiss Francs

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 and AT1, with Tier 2 a lower priority. However, as always, our issuance plan will be subject to market conditions and investor appetite

As you know we are incentivised to hold at least 2.3% of RWAs in AT1 format in our capital stack, reflecting the current Group Pillar 1 and Pillar 2A capital requirements permissible in this form, for which we currently hold 2.8%

We are planning to maintain a surplus to the 2.3%, to provide optionality to manage our call profile, and to accommodate variability in both RWAs and FX. AT1 capital also has a secondary benefit in contributing to our leverage ratio

Our current expectation of at least 3.1% of RWAs in Tier 2 format is unchanged, again reflecting Group Pillar 1 and Pillar 2A components. We are comfortably above that ratio at 3.9% on a transitional basis and we will continue to manage our HoldCo Tier 2 stack as OpCo Tier 2 capital reduces over time

There has been much discussion on legacy OpCo Tier 1 and Tier 2 capital eligibility and the comments from the Bank of England regarding “impediments to resolution” in their June policy statement on internal MREL. Helpfully, our legacy capital tail post 2022 is modest and short-dated, with the vast majority of that tail maturing within 2022, as shown on this slide. We therefore remain comfortable with our plans. We are also following the BRRD / CRR2 dialogue process closely with regards to future capital eligibility of our OpCo legacy stack

On this slide, you can also see our current HoldCo MREL position compared to the expected, end-state requirement

At June 2018, our HoldCo MREL ratio was 26.5%, compared to 29.2% on a transitional basis

We expect a Group end-state 2022 requirement of 29.1% of RWAs to be our binding constraint, and we already meet interim requirements as OpCo legacy capital continues to qualify until 2022. This is prior to any MREL management buffer, which we would expect to hold above this minimum requirement

With ring-fencing now complete, it is worth spending a few moments on how we are funding the legal entities, which we have outlined on slide 10

Slide 10: Deposit and wholesale funding sources for Barclays Bank UK PLC and Barclays Bank PLC

As you can see, the funding sources of both Barclays Bank UK PLC and Barclays Bank PLC are well diversified, including strong and stable deposit funding in each legal entity

Whilst deposit funding is expected to remain the mainstay of Barclays Bank UK's funding base, modest secured funding and short-term issuance, such as CD, CP and MTNs are expected to complete its funding profile, along with internal MREL

Upon ring-fencing, covered bonds were transferred to Barclays Bank UK, including the £1.25 billion 5-year deal issued in January. We have also re-launched the Gracechurch cards securitisation programme, issuing 650 million US dollars in July, the first public trade from this programme for four years

Similarly, Barclays Bank PLC's funding base also comprises a diverse mix of deposits, secured funding and residual outstanding Barclays Bank PLC issued senior debt and

capital. This is supplemented by shorter-dated senior public transactions up to three years, MTNs, structured notes, alongside CP, CD and also internal MREL

As we complete our MREL build, we expect to remain a HoldCo issuer for public unsecured funding with maturities of three years or more

We welcomed the June policy statement from the Bank of England on internal MREL, which enables us to update the documentation associated with our internal funding arrangements in order to be compliant by 1 January 2019. Once documentation changes are completed, senior debt from the HoldCo will be downstreamed as appropriate on a subordinated basis to the legal entities

Turning now to slide 11 and our legal entity capital positions, which we are disclosing for the first time

Slide 11: Group expects to accommodate all legal entity capital requirements within current Group CET1 guidance of c.13%

As I mentioned, we continue to guide to an end-state CET1 ratio of around 13% for the Group, which accommodates the capital requirements of all of our legal entities

As at H1, BBUK PLC and BB PLC printed transitional CET1 ratios of 14.1% and 13.0% respectively

Whilst BBUK PLC and BB PLC are not currently subject to leverage requirements, we do have CRR leverage ratio disclosure obligations and we note the PRA's CP 14/18, which proposes to implement a UK leverage requirement for ring-fenced banks next year. The CRR leverage ratios were 5.1% and 4.1% respectively at H1 (also transitional for both CRR and IFRS9).

It's worth spending a moment on the different regulatory approaches across the Barclays Group and its key subsidiaries

The Group continues to be regulated on a consolidated basis

For Barclays Bank UK, the minimum capital requirements will need to be met on both “solus” and “consolidated” bases, which we expect to be materially the same

For Barclays Bank PLC, capital will continue to be regulated under the existing “solo” regime, with BB PLC considered as a standalone legal entity together with certain relatively small UK subsidiaries, but not consolidated with all its major subsidiaries such as the US Intermediate Holding Company

Consistent with the Group, we view the risk-based RWA measures as the binding constraint for both entities.

For the US IHC, capital continues to be regulated on a standalone basis by the Fed and the required levels of capital are largely driven by the CCAR stress test outcomes

Management of legal entity regulatory requirements has been fully embedded in our capital and leverage planning for some time. Subject to appropriate governance, we expect any excess capital in the respective legal entities to be upstreamed to the holding company, where the Group will decide how and where best to deploy it

Given management’s focus on continuing to drive higher returns, the management of capital to optimally meet internal and regulatory requirements, whilst of course taking consideration of credit ratings, will remain a key focus

Turning now to our liquidity and funding positions, which you can see on slide 12

Slide 12: High quality liquidity and funding position with a conservatively positioned liquidity pool and stable LDR

The Group liquidity pool continues to be large and conservatively positioned, ending Q2 at £214 billion. The Pillar 1 LCR was 154%, a surplus of £73 billion to the end-state 100% requirement

We continue to hold a large proportion of cash and deposits with central banks in the liquidity pool, and this has been achieved without a corresponding increase in UK leverage, due to the treatment of eligible deposits

As I have said before, the quality and quantum of our liquidity are inexpensive credit strengths

This Group pool has now been split, and both BBUK PLC and BB PLC Group have liquidity pools of £43 billion and £171 billion respectively

These liquidity pools contribute to an LCR for BBUK PLC of 144% and a Domestic Liquidity Group LCR for BB PLC of 145%, which is the regulated liquidity basis for the BB PLC legal entity

Our Group NSFR continues to exceed 100%, well ahead of implementation timelines

You can also see on this slide that the proportion of customer deposits within our overall Group funding profile, and the resulting loan to deposit ratio of 83%, has remained very stable.

We have also reduced our reliance on short-term wholesale funding, with the proportion maturing in less than one year now only 27%. As a result, the Group liquidity pool is 5.4 times wholesale funding maturing in less than one year

I would now like to give you a brief update on our Brexit planning, including the expansion of Barclays Bank Ireland, and to outline some illustrative pro forma financials, which you can see on slide 13

Slide 13: Preparation for Brexit

Our Brexit plans are well advanced, incorporating an expanded Barclays Bank Ireland to provide passported activity for EEA-domiciled clients post Brexit

We are planning for the expanded BBI 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

We are assuming grandfathering of pre-existing activity, although many clients may wish to move this activity to BBI as part of the transfer process

The client migration will be executed over time, using a combination of consensual negotiations and a Part VII court process. We currently expect that the majority of the existing EU branches and positions will transfer during 2019. Although of course the announcement of a political agreement on a transition period until 31 December 2020 may, if ratified, allow further time for our clients and the industry to restructure their operations

It is important to note that our plans do depend on regulatory authorisation for the extension of activities undertaken by BBI and discussions with our clients. So we will continue to review and refine our planning in light of external developments, so the indications I'm giving now remain subject to change as we progress

BBI is a wholly owned subsidiary of BB PLC which will consist principally of the current Corporate, Investment and Private Banking activity across Europe, and the Barclaycard consumer business in Germany

To give you a sense of size, the pro-forma financial information using December 2017 numbers, taking EEA-domiciled clients and assumed migrated business would have resulted in an external balance sheet of around £170 billion – about 15% of Group total assets. On revenues, pro-forma BBI revenues for 2017 would have been less than 10% of the Group

BBI's shareholder's equity would have been around £5 billion and we anticipate that BBI's capital ratios will be broadly in-line with those of BBPLC and the Barclays Group

The funded balance sheet would have been £43bn. We intend to fund the balance sheet with an appropriate mix of diversified Corporate, International Wealth and Barclaycard customer deposits, a mix of short and long-term sources of wholesale funds, and MREL and equity provided from within the Group, and this will ensure the entity has strong liquidity ratios

The entity will continue to be regulated by the Central Bank of Ireland and, in its expanded form, the ECB

We are pleased that the credit ratings of BBI are aligned to BB PLC – at single A, stable with S&P and single A, rating watch positive with Fitch

Before I conclude, I will quickly summarise the other key ratings of the Group on slide 14

Slide 14: Ratings remain a key strategic priority

The review of Barclays' ratings was completed at the start of Q2 following the execution of our ring-fencing plans, including new ratings for our ring-fenced bank, BBUK PLC

Standard & Poors assigned a long term rating of single A to BBUK PLC, the same as that of BB PLC, which reflects the “core” status of both entities under S&P's methodology. Barclays PLC continues to be rated BBB and each of these entities have stable outlooks

Fitch assigned long term ratings of single A to BBUK PLC, the same as that of BB PLC, with both entities on rating watch positive, due to the expectation that there will be sufficient pre-placed MREL within the entities to receive one notch of Qualifying Junior Debt by year end, and hence expect them to be rated A+. Barclays PLC remains A with a stable outlook

Moody's assigned a long term rating of A1 to BBUK PLC. BB PLC and Barclays PLC were both downgraded by one notch to A2 and Baa3 respectively in April. All ratings are now on stable outlook

As we have said before, ratings are strategically important to us, and we continue to focus on the successful execution of our strategy, to strengthen our credit proposition, and therefore support our ratings profile over time

So, to summarise on slide 15

Slide 15: Focused on profitability and returns and capital targets

The strong earnings performance and capital position of the Group show the completion of our restructuring

We are pleased to have reported another strong quarterly double digit return for the Group in Q2 and this positions us well to deliver on our 2019 and 2020 RoTE targets

We saw healthy accretion in our capital ratio in the quarter returning to our end state target of around 13%

Tushar, with that, I'll hand back to you

Slide 16: Q&A

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

Please go ahead

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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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