Barclays PLC Q1 2020 Results
29 April 2020

Results call Q&A transcript (amended in places to improve accuracy and readability)

Alvaro Serrano, Morgan Stanley

I’ve got one on provisions and another one on capital. Obviously, the provision taken in the quarter is a very credible and sizeable one, but I’m just asking for some help [around] how we could think about – in the next few quarters – the total provisions we might see this year?

[Could you] give us a bit of colour on how the payment holidays are evolving? Is this a metric we should look at as a leading indicator of what provisions might look like, or should we look at unemployment? And also, on the oil price overlay in the provision, what oil price are you assuming?

And the second question on capital. Obviously, you have said that you’re going to dip below 13% in Q2. During the quarter, we’ve had quite a lot of exceptions given by the PRA in Markets, e.g. RWAs on VAR breaches. There’s also the IFRS 9 transitional benefit. Can you help us quantify what the benefit was?

When I think about the RWAs going forward, is there a risk that some of this mitigation comes back? Is 13.5% still your target? Beyond this year, and in all the discussions you might have at the end of the year around capital distribution, would you want to get closer to 13.5% before you distribute capital?

Tushar Morzaria, Group Finance Director

On provisions first and then I’ll come on to capital. Obviously, it’s a very uncertain area, it’s a month or so into this crisis, so these are difficult paths to forecast. But if our assumptions are correct around the economy, as you’ve seen on slide 15, […] then first of all I would start with our current pre-crisis existing run rate of impairments, and that was running at about £400m to £500m a quarter. Think of that as cash losses in any one quarter.

We’ve built IFRS 9 provisions, a book up of £1.4bn, I think that’s probably a reasonable proxy of additional cash losses that we would expect to have over the remainder of the year, if our forecasts are right. What does that mean? That means that our run rate in provisions would be somewhere around £800m to £1bn, something in that zip code.

Now, I’d caveat that quite heavily. None of us knows whether we’ve called the economic forecasts correctly. We do have governments here, acting to provide all sorts of measures of support, but we don’t know the effect of them and how they’ll play out. And of course, there are different programmes in the United States, in the UK, and across individuals and businesses. So, lots and lots of caveats, but if we’ve miraculously forecasted this all correctly, that gives you a sense of the run rate from this point on.
In terms of metrics to look at, I think unemployment is probably the most important metric for us. Again, it’s complicated because of the government support and furlough schemes here. Payment holidays are important. Payment holidays are about 3% so far in our unsecured books, which is probably where it’s most relevant, so we’ll see where that goes.

I would say that in our unsecured books, spending of course, is down. You can see that in the GDP numbers. But alongside that, card balances are actually down, and that trend seems to be quite prevalent in April. Not so great for income, but obviously helpful for impairment. That may or may not change as consumer behaviour adapts.

Final thing, Alvaro, you mentioned oil. We’ve assumed a 50% chance of $20 oil [per barrel] remaining for the rest of the year. And we took that assumption based on futures contracts around mid-April, where the futures strip was comfortably above that level. Obviously, that will fluctuate as the quarter goes forward.

In terms of capital, we’re pleased that our capital ratio was above 13%. Obviously, there’s a lot that went through our capital ratio. The impairment build itself was 69 basis points. Lots of RWA inflation, revolving credit facilities, and so forth. I think, as we said, we will expect to go below 13%. I think you’ll have seen the bulk of the procyclicality happen in Q1. There will be some follow through, but it will be much more modest.

And whether that’s the low point in terms of our capital ratio, again, is somewhat driven by the economic path that we may be following, but we’ll see where we go from there. I think if things go back to normal, then 13.5% probably feels like the right level again, on the basis that countercyclical buffers and so forth are reset back to where they [were]. There’ll be a natural flow back in RWA if countercyclical buffers are phased back in. Some of the RWA inflation that we’ve experienced will naturally ebb away as well, so there’ll be a calibrating effect back there. But at all times, I think they remain at very appropriate levels, well above our MDA level, so we don’t see ourselves going anywhere near that at this stage.

Jonathan Pierce, Numis

Two questions as well, on provisions and then RWAs. On provisions, I want to understand this transitional relief, or absence of transitional relief, in the first quarter. The stocks at stage one and two have fallen below the IFRS 9 add back, then there was a true up as you went through Q1, and that’s why you didn’t get any substantive relief? What’s the additional true up that’s needed before we start seeing any transitional relief coming through, whether to be for the stage one or two builds in the coming quarters?

Question two, on RWAs, the CET1 ratio dropping below 13% in the second quarter is probably pointing to maybe another 4% to 5% increase in RWAs over the next three months or so. You alluded to this in your answer to the previous question, but is that the right ballpark we should be thinking about? Maybe you could talk a bit more about the quantum of credit risk procyclicality specifically within that.

Tushar Morzaria, Group Finance Director

The transitional relief for IFRS 9 [...] is a devilishly complicated calculation. There are a few things going on here. In some ways we got very little, as you rightly pointed out, transitional relief in Q1. That’s just the way the calculations falls for us. Obviously stage three [gets] no transitional relief, and in stage one and two, you had two effects going on there.
For the stock of stage one and two provisions, transitional relief fell from 85% to 70%. And then as you pointed out, there are various thresholds in there. We've not called out how that may play out in Q2, because there's such an interplay between the various stages. And actually, it's more than one threshold this year, as you're familiar with. You have DTAs and various other things like that playing around there as well.

So, I don’t think I can give you just a single number that would be helpful. It depends on the path, but I wouldn’t be expecting a whole load of transitional relief going forward, if that's of any help. In terms of RWA inflation, again, very tricky to guide to this one for the second quarter, simply because it's such an uncertain path that we're going through. All I would say is we will definitely have some procyclical flow through into the second quarter. I would say that it will be much more modest than we’ve experienced thus far.

And of course, the other thing that I think we should also point out is that our MDA level is probably likely to go lower as well, even though our capital ratio is going to dip below 13% over the course of this year. I think you’d expect to see another step down in our MDA, and that's just because, as you’ve seen in the Bank of England stress testing framework, the MDA levels get recalibrated in times of stress, and I’d expect the same over the course of this year. So, I can’t give you a precise quantification into Q2, but hopefully this gives you a sense of where we should be going.

Jonathan Pierce, Numis

Can I just come back on the first question, or the answer to it? Are you saying that even if there was a further sizeable increase in the stock at stage one/ two provisioning – maybe £1bn plus over the rest of the year, and I know that's not your assumption – but were that to happen, we wouldn't get any transitional relief of size on that either?

Tushar Morzaria, Group Finance Director

No, I definitely wouldn’t be as black and white as that. It very much depends on the scale of the stage one and two provision builds, as well as the interplay of the various thresholds, so it’s not straightforward. If it was a reasonable build, then I do think we would get some transitional relief. If it was a modest build, then probably not so much.

Joseph Dickerson, Jefferies

Just a quick question on costs. You’re annualising at £13bn of costs pre-levy in Q1. What are the moving parts around that as we go through the rest of the year? I’m just trying to dimension where we think you could be for the full year. You’ve said you have some limited flexibility outside of variable compensation, so just trying to dimension that, but a very good performance on the cost piece.

Then just on the regulatory capital ratio. Given the commentary that you plan to dip below 13% in Q2, should we assume that it troughs in Q2, as you called out in several areas that you expect the maximum pressure economically to occur in Q2?

Tushar Morzaria, Group Finance Director

I’ll start with the question on capital and then I’ll say a little bit on costs, and I think Jes will add some comments on costs as well. On the capital ratio, it is difficult to forecast simply because of the uncertainty
around the economic paths that we may or may not be embarking on, and also the way in which impairments will play through as well.

On the assumption that we’ve called it absolutely correctly, I think it’s a reasonable assumption to assume that once we get to whatever capital ratio we get to in Q2, we should be hovering around those levels, and perhaps even building up again over the rest of the year, but I’d put lots of caveats around that. It really does depend on so many factors.

On costs, there are various puts and takes. I think, first and foremost, you’d expect us to be as responsible as we can in terms of helping everybody get through very difficult circumstances. To the extent we were going to make future redundancies and workforce changes, we will delay that. We would expect ourselves to have lower attrition levels. Some operating costs will increase, and I’m sure jes will talk about this, but you guys will be very familiar with this.

Keeping a sophisticated financial institution running when virtually everybody is working from home, from consumer-facing customer outreach to capital markets activity when we’re trying to do capital markets raises, and virtually all salesforces, traders and investors are at home, is incredibly complicated, so that probably has a degree of costs associated. On the flipside, we’re not travelling, obviously. We’re not going to be marketing as much, so I think there are various puts and takes. At the moment, I don’t think there’s anything new to say on costs from perhaps where we are.

Jes Staley, Group Chief Executive Officer

Obviously, in the first quarter, we landed the cost income ratio of 52%, so that should underscore a certain degree of prudence. We are well below where we were last year. But I think the one thing I would repeat is we took a decision not to reduce our headcount, even though we had the opportunity to do that. I just don’t think, at this stage and in this current environment, we should be putting people out of work just to drive costs down, so I think you should look at a roughly flattish number for the year.

Rohith Chandra-Rajan, Bank of America

I wondered if I could ask a couple around the cards and payments business, and particularly in relation to the travel industry. Firstly, in US cards, a lot of the co-branding is with airlines, which you’ve talked about in the past. I was wondering if you could remind us how much of the US cards business balances are with airlines? And also comment on what you’re seeing in terms of volumes, the volume outlook and credit quality there?

And then the second is on the acquiring side. A lot of travel firms and airlines are now offering rebookings or vouchers rather than refunds. And anecdotally, customers are now looking to get chargebacks on their credit cards as a result to recoup the cash rather than taking the voucher. I was wondering what you’re seeing there in terms of that anecdotal evidence and what the impact is, particularly from an acquiring perspective?

Jes Staley, Group Chief Executive

On the travel side and our US cards, you’re right, we’ve got very strong co-brand relations with American Airlines, JetBlue and Hawaiian Air, so clearly you’ve got the issue of consumer spending dramatically less money and receivables going down. However, these programmes continue to be extremely important for the airlines, so on that side, we are elevated as a partner.

Also, you may have seen […] that we did a $1bn equity raise for United [Airlines] last week, and we’re very involved in the Delta [Air Lines] financing as well. But you’re right to point out, I think the US cards
is going to struggle. On the flipside, because we had that concentration in the airline industry, that gave us one of the highest average FICO scores of any credit card company in the US, so it’s a balance. I think we will be less hurt on the impairment side, but probably more hurt on the revenue side.

Tushar Morzaria, Group Finance Director

The FICO scores for the book, I think the standard definition of prime in the US is 660. 84% of our book is greater than a 660 FICO, so although it’s going to be tough times in the economy, that is of some help to us. The other thing I would say is that credit metrics are evolving all the time as we go through the crisis. We have seen a pickup in delinquencies, both in UK and US cards. Quite modest, it’s up 10bps in UK card delinquencies and 20bps in US cards. Towards the back end of April we’ve seen that level off already. Again, it remains to be seen. I don’t want to say that that’s also going to be the case for the rest of the quarter, we just don’t know, but hopefully that’s at least some additional colour.

Jes Staley, Group Chief Executive

Taking that 17% unemployment rate through three quarters, you can’t get much more conservative than that and taking that provision in the first quarter, we shouldn’t lose sight of that.

Rohith Chandra-Rajan, Bank of America

And on the acquiring side in terms of the risk from chargebacks?

Tushar Morzaria, Group Finance Director

On the acquiring side, I don’t think there’s anything specific I’d call out on chargebacks. There’s nothing coming through in our metrics that stands out as anything particularly unusual. Obviously, acquiring volumes are dramatically down, the GDP numbers give you a good sense of that. But in terms of other risks outside, it’s just lower volumes, so there’s nothing I’d call out.

Guy Stebbings, Exane BNP Paribas

The first one is on Barclays UK and the new NIM guidance. You’ve given a lot of colour on the different headwinds to get there, but could you give us a sense of the phasing? It sounds like quite a lot will come in Q2, given the actions taken to support consumers and obviously the timing of the base rate move, rather than a steady decline. Is that fair? I don’t know if you could give us a sense of how much of that decline is coming from those consumer actions, which hopefully should reverse next year perhaps?

Then secondly, on the COVID-19 business interruption [loan] schemes and some of the economics there, in particular the risk rates on average you might have against those loans on either the 80% guaranteed or the 100% guaranteed loan scheme. From a leverage standpoint, presumably you have to recognise all the exposure, but if you could just clarify that?

Tushar Morzaria, Group Finance Director

In BUK, I would say that you’ll start seeing the full effect of three, possibly four, components of revenue headwinds come through in the second quarter. We’ve got the impact of rates coming through. What happens there is our assets reprice pretty much immediately, the deposits won’t reprice until, from memory, July. It’s just the standard protocols we have in the UK of writing to customers to give them advance notice. So you’ll probably see NIM dip most in Q2 and then recover again in Q3 and Q4, everything else being equal.
We are spending, if you like, discretionary amounts for ourselves, just to help customers through the difficult period. We think that’s about £100m for this year, and then over and above that, along with many other banks, removing various fees and charges [on overdrafts etc.], and we think that’s about another £150m.

In terms of next year, again, it remains to be seen. This is a brave call on how the world will look next year, which is quite a hard thing to forecast given we’re only a month into this [crisis]. But there is a view you could take, which is that the temporary suspension of fees and charges ought not to apply next year, as well as some of the more discretionary things that we do.

But in terms of your models, I hope it came through in my scripted comments, but just in case not, we would expect NIM in Q2 to dip again quite sharply, simply because of the rate actions, and then to recover again over Q3 and Q4. For a blended average over the full year, a NIM rate of something like 250bps to 260bps is probably around the level to be thinking about.

Jes Staley, Group Chief Executive

On the COVID-19 80% or 100% guarantee programmes, there’s a lot of discussions going back and forth, and I want to say that the British government is really trying. They’re doing everything they can to make these two programmes successful, as are we. Everyone realises that the guarantee is real, and therefore [that impacts] the calculation of risk against these loans that are extended. The PRA is looking at that, but I think you should consider that it’ll have a very, very low RWAs [applied] to it.

Guy Stebbings, Exane BNP Paribas

Could you clarify from a leverage point of view? Would you have an offset for leverage?

Tushar Morzaria, Group Finance Director

The numbers here are quite modest, so if you think about how much we’ve extended through the CBILS programme, [which is around £737m], it’s pretty modest, in terms of scale, on the balance sheet. These are relatively small, individual loans. I think it’s 4,000 SMEs that these have gone out to.

For the larger corporates where the numbers can get much bigger, we’ve been very active in getting people to the commercial paper programmes run by both the UK and the US governments. I don’t think we’re allowed to give precise stats, but we’re comfortably the largest participant in that programme.

Jes Staley, Group Chief Executive

We were very active in opening the investment grade capital markets, from the $19bn [deal] for the T-Mobile and Sprint merger to the $8bn [bond issuance] for the World Bank. All these big capital market trades are also decreasing [demand for revolving credit facilities], because it’s much cheaper borrowing than going into your revolver, so one of the issues you’d want to look at in terms of leverage is how much our revolver is being used. With the [robust]opening of the capital markets, we saw some of the highest levels of issuance that we’ve seen in decades, if not ever. That’s taken a lot of pressure off the draw on our revolvers, which has pretty much been flatlined, so that will also take pressure off our RWAs [and leverage].

Ed Firth, KBW

I have two questions. The first one is on the CIB performance, and in particular the FICC revenue. Just trying to compare and contrast the revenue and the cost performance, I know you said in the call that
you felt you had adequately accrued compensation related to that revenue, but that revenue is absolutely sparking. Even if you compare it against peers, nobody has produced anything like that in terms of revenue performance.

I just wondered if you could talk a little bit more about what was driving that and perhaps are there some one-offs in there? Is there a reason that you don’t have to pay the people who delivered this revenue? And perhaps how we can imagine that might be going forward?

[Secondly,] it’s back on the CBILS, regarding both programmes and the micro one. If I compare what’s happening in the UK with particularly the US but also Europe, the take-up has just been incredibly low and incredibly slow. I can’t imagine it’s because our small businesses or our business community is finding life any easier than [those in] the US or anywhere else.

[…] The sector has been taking a little bit of incoming about delayed approvals and being difficult. What’s your steer on how that’s going now, and perhaps on the £330bn top line number? Are you imagining that over time we will get to something like that? Or are we really [thinking] the scheme is going to be £10bn at most for the sector and we can broadly ignore it?

Tushar Morzaria, Group Finance Director

[…] On CBILS, the only comment I’d make is, first and foremost, I’d say the banks – I speak for ourselves, but I’m sure I’m speaking for all the banks – are 100% committed to make these programmes work. We are doing everything we can to extend credit, sometimes even in advance of going through the full plethora of checks and balances and consumer credit act provisions. These are very complicated programmes to administer, and it’s obviously a lot of pressure on the government.

I’d really stress that we are 100% committed. We have people processing these things non-stop and talking to clients, and remember we’re not in our headquarter building anymore. Everybody’s doing this in different parts of the country, with compliance officers removed away from bankers who are doing the underwriting, from risk managers who are approving the lines, etc.

No doubt there’s been some glitches in the operational efficiency of getting these done, but I think you’re seeing the pace of programme really pick up and it’s getting quicker. The final thing I’d say is that the £330bn headline number, I don’t think it’s, as I understand it, just CBILS. It’s a full suite of the commercial paper programme, CBILS, furlough schemes, and various other things like that.

One thing that we’re very instrumental in is in terms of making those payments on behalf of HM [Treasury] for furloughed workers. At Barclays, we’re the bank for HM [Treasury] on that, and that’s actually working remarkably well in terms of administering those payments.

Jes Staley, Group Chief Executive

Yes, there’s a tremendous amount of dialogue between myself, the Chancellor and the Head of the Bank of England on how we evolve these programmes to make them more effective and more efficient. This is a very new frontier, so it has taken us a while to get there.

£330bn was a first stated, indicative number, but I think it’s pretty clear if you read what the British government is up to, they’re willing to go well beyond that. Tushar is right, we’re all in this together and we shouldn’t underestimate the economic commitment that the government is making and we need to partner with that.
Ed Firth, KBW

Sorry, just to clarify the number on CBILS, […] you would expect those three guaranteed programmes to end up being material in the context of the total UK economy?

Jes Staley, Group Chief Executive

Yes, but don’t ignore the commercial paper programme. They’ve asked us not to give that number out but that’ll be a sizeable number. Yes, I think this will make a material impact on the economy and should run for a good period of time.

As Tushar said, don’t underestimate the economic impact of the furlough programme and the economic impact of getting money to local municipalities to deal with the leisure sector. As I said in the press call this morning, what we’re seeing is two tsunamis hitting us at one time. You’ve got the tsunami of the extraordinary economic contraction with the tsunami of an extraordinary government response.

Then vis-à-vis FICC, we talked about that a lot this morning. Obviously very pleased with how the team did. Our numbers are not a function of going in with one position or another. It’s very much driven by how we stayed very much engaged across all the asset classes with all of our clients.

Obviously what happened for a period of time around liquidity and what that did with the most liquid markets from US rates to currencies was extraordinary, to then the liquidity response from the government and how that led to the buy-side rebalancing their portfolios, which then led to an opening in the capital markets and, as I said, you had some historically high numbers.

We’ve also said that in the first three weeks of April we’ve continued to see quite a strong trend versus last year, but I’d also say everyone here is committed to making sure that this bank is a firewall as we go through this economic crisis. We’ll look back in time and be very proud of what we’ve done. Bankers do things not just for compensation, and we’ll deal with that issue at the end of the year.

Chris Cant, Autonomous

If I could just round out the discussion on the Barclays UK piece? Just crunching through some numbers very simplistically here, your 250bps to 260bps NIM guidance for the full year, if I apply that to your Q1 average customer assets in the UK, that points to an NII number of about £5bn, which is obviously down very materially on last year. Can I just confirm that’s the number that you’re looking for there?

You’ve given us these numbers in terms of the different impacts from regulatory change and rates and things like this. I guess some of that is in the fee line. How much revenue pressure do you expect to see in other income specifically in the UK? I’m just trying to get a sense of how much further that £6.9bn consensus revenue number needs to come down.

Then if I could follow up on the previous brief discussion on leverage. You’ve talked about being comfortable to run below your previous CET1 target, and in the past you’ve talked about expecting to run with a c.5% UK leverage ratio […]. You’ve just printed 4.5%. Are you concerned, or are you content for that to fall further? How low are you willing to go there?

Tushar Morzaria, Group Finance Director

[…] I’d let you and everybody else do the maths, however your models are set up in terms of projecting the split between NII and other fees. I’ll give you the building blocks for that, which hopefully you caught in the script, but just in case others may not have, I think you’re probably a little bit low in the way you’re
doing that arithmetic. I think NII would be a little higher than £5bn, but let me give you the building blocks, it’s probably more direct.

The way we think about it is, for the rest of this year, assuming the rate curve is where it is, we’d expect about another £250m of headwind on the top line just coming from rates. We’d expect about another £150m headwind coming from, if you like, reduction in overdraft fees, charges, business banking fees, penalties for taking out cash from flex deposits, all that stuff. Then probably another £100m coming from other discretionary things that we’re doing for our customers.

So I think in terms of the NIM shape, as I mentioned, we’ll see the low point in NIM probably in the second quarter and recovering again in Q3 and Q4 as deposits reprice. Hopefully that’s helpful, but I think the way you get to £5bn is probably a bit lower than I would guide you to. It’ll probably be slightly above that, but I’ll let you run your models.

Chris Cant, Autonomous

Just in terms of the £5bn, I’m just taking your £195bn of average customer assets for three months and applying your 250bps to 260bps NIM guidance. Am I misunderstanding something there in terms of how you calculate the NIM?

Tushar Morzaria, Group Finance Director

I won’t go through the arithmetic on how you’re doing it, but hopefully by giving you all the individual components of the income headwinds and letting you know that I think NII itself will be a little above £5bn are of enough help there.

On leverage, yes, you’re right. I think, if you like, in normal circumstances somewhere around a 5% UK leverage ratio felt right to me […] accompanied with a 13.5% or so CET1 ratio. As you pointed out, we’re running at about 4.5% now on a daily average basis, the same as we were in Q419. So our leverage ratio has actually been pretty stable on a daily average UK basis, both Q4 and Q1.

Obviously our CET1 ratio has gone backwards. I think you don’t suffer […] the [same] level of procyclicality in [leverage] as you do in [CET1]. Obviously our balance sheet has got larger, but a lot of that is just a function of things like low rates rather than asset inflation in a more traditional sense.

So I think somewhere around 4.5% probably is the level that we’ll continue to run. Again, I’d put huge caveats on that. We are living in a difficult path to forecast, so it may bounce around there. You’re probably also familiar that there is probably an accelerated change coming through the UK leverage ratio with respect to settlement balances, which will improve the ratio marginally on a like-for-like basis in Q1 and be helpful for us in Q2.

Andrew Coombs, Citi

Two questions please. The first, in your opening remarks on payment holidays, I think you said 94,000 for mortgages and 57,000 on personal loans. Could you just give us an idea what proportion of the book that is and also to what extent those customers were up to date with payments prior to taking the holiday? I’d assume it’s the vast majority, but if you could just confirm?

Then second a broader question on strategy. You’ve always talked about the benefit of business diversification, different parts of the bank performing differently in different parts of the cycle. Do you think the current quarter vindicates your argument and do you remain happy with the size and shape of the respective divisions?
Tushar Morzaria, Group Finance Director

Just in direct response to your first one, for mortgages, payment holiday represents about 10% [of our book]. The vast majority of those were paying customers, so I think you’ve just seen a big rush forward for people to take a three-month holiday. We’re not overly concerned on that one yet. I don’t want to be too sanguine about these things, but that one I don’t feel so nervous about. On cards, which is perhaps a slightly more sensitive one, it’s about 3%.

The reason why I’m a little bit more sanguine on mortgages is because the amount of over collateral in our mortgage book is very substantial. So we’ll see where house prices go, but in any forecast that we’re seeing at the moment we’ll be substantially over collateralised on our mortgage book. Cards obviously slightly different.

Jes Staley, Group Chief Executive

I think many of us have lived through a number of economic cycles. What we’ve witnessed before is that there is a certain countercyclicality between a consumer business and a wholesale business. We talked about that in March 2016 when we rolled out the universal banking model that we wanted Barclays to pursue and we’ve been a defender of that ever since.

What you’re seeing here is a radical economic cycle happening in about a month, but who knows, there’s a lot in front of us. I think we are very much happy that we have this diversification and do believe that the wholesale business will continue to offset, to a certain degree, what we’re probably going to face in our consumer business for the rest of the year.

Tushar Morzaria, Group Finance Director

There are definitely income headwinds on the consumer businesses that I called out, and on the sales and trading top line at least, we stated in our formal outlook that April is running at a level much better than Q2 last year. So I think we’re seeing the offsetting effects going on there, at least for the moment.

Robin Down, HSBC

Two questions please. Can I come back to the RWA question? I think you said there’s more procyclicality in Q2, but I guess just looking further out to the second half, I assume that we’re not anticipating a great deal of loan growth. The loan book might even shrink, and I assume that the market volatility would presumably ease in the second half of the year. So are you anticipating that RWAs might peak in Q2 for this year, that we could finish at a lower level at the end of the year?

The second question, […] from the oil perspective, if I think back to your disclosures in your ESG report, you had a relatively modest drawn exposure but a fairly substantial undrawn exposure to oil. Clearly you’ve had some quite big drawdowns at the end of March, so I just wondered if you could give us an updated picture as to what the actual drawn oil exposure was at the end of the quarter?

Finally, on the leverage loan positions, I think you said you took a £320m mark there. Could you just give us the size of the leverage loan positions?

Tushar Morzaria, Group Finance Director

In terms of procyclicality of RWAs, yes, we will see some follow through into Q2. Many of the models are based on a rolling average, so as much as you’ll see some follow through from Q1 into Q2, [they may]
Robin Down, HSBC

Sorry, I was thinking more in terms of balances might start to shrink rather than the procyclicality of them?

Tushar Morzaria, Group Finance Director

It’s very hard to guide on that. I know the temptation is to think everything will go back to normal and the averaging will start unwinding. It’s quite hard to guide because it’s so far away and there are so many different components to this, and the averaging sometimes is actually not just on a rolling three months. Some of these are 12-month averages, so it’s quite hard to guide on that.

But what I would say is that the amount of procyclicality we’ve seen in Q1, I’d be surprised if we see anything like that coming through. Certainly not in Q2 I’m not expecting, or even beyond that, so I think we’ve seen the bulk of it. Does it flow back? Maybe, but I think it’s a bit too early to guide to that.

The one thing I would say, though, is you’ve seen it on our bridge, the revolving credit facilities did build up quite rapidly, about 33 basis points. If anything, we’re seeing net negative revolving credit. We’ve seen marginal paydowns actually in April, so I think that gives you some comfort that at least that component won’t be there.

In terms of oil, we actually have something in the appendix. We had a slide on our drawn and undrawn oil exposures. We’ve got £3bn drawn and we’ve got some commentary as to where that’s coming from. Most of that is with oil majors that are investment grade, and in fact a decent amount of the drawn exposure is also secured against various assets as well. And of course we’ve taken an overlay in our IFRS 9 provisions, assuming the likelihood of a $20 oil price, so we feel reasonably well provided there.

Leverage loans, we haven’t given a slide on that, but you’re right that we took c.£300m of marks, almost entirely offset by hedges that performed well. Again, if anything, when I look at April, […] the leverage loan market has probably calmed down quite a bit, and capital markets are certainly much more functional than they were when we were closing the books at the end of March. So I’d say the risks are probably subsiding rather than increasing there, and our books are well contained.

Jes Staley, Group Chief Executive

The high yield market has reopened quite comfortably and the equity markets have reopened, and so I think the risk of delevered loan markets that we may have seen about a month ago has definitely subsided, and we feel very comfortable with the book that we have.

Martin Leitgeb, Goldman Sachs

One broader question, if you could comment on how severe a credit cycle you would expect to run forward from here? Just looking at your assumptions in terms of the COVID-19 overlay of GDP contraction, this seems more severe compared to prior cycles we had. On the other hand, the recovery
seems to be faster, and equally there’s government guaranteed schemes and support schemes in place. If you take all of this into consideration, how severe a credit cycle would you expect?

**Tushar Morzaria, Group Finance Director**

We’ve tried to give you what we’ve used for our own forecasts in terms of GDP and unemployment. That’s what we’ve assumed. It’s out there on one of our slides. Whether that’s what it turns out to be, it’s only one month into this [crisis], so we’ll see.

I would say the reason why it’s so hard to really accurately forecast this is that we’ve seen an enormous amount of government actions stepping in to do everything they can to backstop, and we’ll see how successful they are. I think you’ve got to believe that if there’s a will, there’s a way when governments are involved, so we’ll see if that plays out. There’s not much more I think we can add, other than show you the data that we’re basing our assumptions on.

**Fahed Kunwar, Redburn**

Just a couple of points of clarification and some questions. On clarification, you said you’re looking at £800m to £1bn run rate for impairments going forward, and I know how extremely hard that is to forecast, so is that £5bn impairment number based on all the uncertainties around right now? Is that how to read that?

On costs, you made a point saying costs were flat. Is that flat on the Q1 run rate or flat on FY19? I think FY19 was £13.6bn including bank levy. Is that the number we should be thinking about? Or was it more the Q1 run rate, which I think that is below £13bn?

[…] On the UK credit card facilities, are they being used substantially? Should we be quite optimistic that all these facilities on the corporate side and the credit card books aren’t being used that much? I thought they’d be used a lot more, or is it too early to be particularly optimistic on this because of the level of government support we have right now?

**Jes Staley, Group Chief Executive**

On the costs number, I was speaking more towards flat against FY19, but make sure you take the FX adjustment to it.

**Fahed Kunwar, Redburn**

What is the FX adjustment, just out of interest?

**Tushar Morzaria, Group Finance Director**

Just re-translate on a constant currency basis, broadly neutral to last year, and we’ll update guidance as we go along. It’s still early on, we’ll see how this plays out and we’ll keep you posted. On the impairment, it’s so hard to forecast, but I think if you add on the £2bn plus what I guided to, you’re getting into that £5bn zip code. We’ll keep you posted, but that arithmetic works.

In UK cards, yes, it’s the same thing. We have seen a meaningful drop-off in spend. There’s no real big secret there. You’ve seen it in payments data, our own payments data, but also in GDP revisions. What’s
more interesting is that we have seen a drop-off in card balances that is ebbing down and down. Bad for income, good for impairment, and that’s somewhat in the income guidance that I gave earlier.

Does that rebound? In some ways we hope it does rebound, but we hope it does rebound as the economy recovers, because then it gets back to more of a normal environment. I think it’s very early to forecast that. We haven’t even come out of this particular lockdown, and how consumers behave and how everybody gets back to work I think is very unclear at the moment. […] I think we’ll know a lot more in Q2 obviously.

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