

Barclays PLC FY 2020 Results**Fixed Income Conference Call Speech****Tushar Morzaria, Barclays Group Finance Director****Kathryn McLeland, Group Treasurer****Miray Muminoglu, Head of Term Funding****Title slide: Barclays PLC Fixed Income Investor Call – FY 2020 Results Announcement**

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

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

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

Slide 3: FY20 Group highlights

As I said this morning, our priority during the pandemic has been to support the economy, serving our customers and looking after the interests of colleagues and other stakeholders.

It's been a very challenging year but the pandemic has shown very clearly the benefits of our diversified business model.

Despite the effects of the pandemic, we reported a statutory RoTE of 3.2%, or 3.4% excluding litigation and conduct.

The impairment charge of £4.8bn, up almost £3bn year on year, reduced PBT from 6.2 to £3.2bn, excluding litigation and conduct.

With income up 1% overall we delivered neutral jaws, and a cost income ratio of 63%, slightly in excess of the group's target of below 60% over time.

Our capital position is also strong with the CET1 ratio strengthening further in Q4 to reach 15.1%, up 130bps over the year.

Under the temporary guardrails which the regulator announced in December, our statutory profitability allows us to distribute 5p in aggregate, by way of dividend and buyback.

We plan to launch a share buyback of up to £700m by the end of Q1, which is attractive for us from a financial point of view at current share prices and is equivalent to 4p per share.

In addition, we are paying a dividend of 1p, and reaffirming our intention going forwards to pay dividends, supplemented, as appropriate, by share buybacks. We'll update the market further on distributions at the appropriate time.

Our balance sheet resilience and ability to remain profitable in every quarter of 2020 means we're in a strong position to continue capital distributions to shareholders, absorb capital headwinds and operate in our target range of 13-14% - more on capital from Kathryn in a moment

Before I hand over, a few words on impairment on slide 4

Slide 4: Impairment charge increased £2.9bn due to expected future customer and client stress caused by the pandemic

You're already familiar with the significant increase of almost £3bn in the impairment charge year-on-year.

This has been driven by deterioration in the economic outlook, as a result of the pandemic – and has led to significant increases in the charges in each business.

However, this book up in provisions in Q1 and Q2 has not yet been followed by material increases in defaults.

You can see the much lower charges for Q3 and Q4 in the second chart.

We've shown the charge for each quarter, split into Stage 1 plus 2 impairment, mostly relating to balances which aren't past due, and the Stage 3 impairment on loans in default.

As you can see, most of the elevated impairment in Q1 and Q2 was from the book ups, while most of the Q3 and Q4 charges were on Stage 3 balances.

On the next slide we've shown the macroeconomic variables, or MEVs, we've used in the expected loss calculation.

Slide 5: Balance sheet impairment allowances significantly strengthened, including management adjustments

We've updated the MEVs slightly in Q4 as you can see on slide 5. However, I would emphasise that, with the reduction in unsecured balances and given the ongoing level of government support, the models on their own would have generated a significant provision write back in Q4.

However, there is significant uncertainty as to what defaults we will experience as support schemes are wound down through 2021. We have therefore applied significant post-model adjustments, totalling £1.4bn, as you can see in the table.

This takes our reserves to £9.4bn which broadly maintains our increased level of coverage.

Given our forecast for unemployment levels, we would anticipate an increased flow into delinquency as we go through 2021, but given our existing level of provisioning, we would expect a materially lower charge for 2021.

And with that, I'll hand over to Kathryn.

Slide 7: FY20 highlights

Thanks Tushar.

As you can see on slide 7, we finished last year with a robust balance sheet across all our metrics. Our CET1 ratio was 15.1%, MREL finished ahead of our end-state requirement at 32.7% of RWAs or 8.0% on a CRR leverage basis, and our LCR stands at a very strong position of 162%.

I'll start with capital, on slide 8.

Slide 8: CET1 ratio increased 130bps YoY and 50bps QoQ

Over the course of 2020, our CET1 ratio increased by 130bps from 13.8% to 15.1%.

As you can see on the slide, the largest driver for this was our ability to deliver profits every quarter in 2020, despite the external stress that we and the rest of the sector experienced. Pre-provision profits contributed to 203bps of capital accretion in the year.

There was meaningful regulatory support in 2020, such as the 100% relief for stage 1 and stage 2 impairments taken since the beginning of 2020. And, in Q4 we saw further uplift from the risk weighting of software assets but we do expect that benefit to be reversed during the course of this year for UK banks. Tushar mentioned the resumption of capital distributions earlier. Whilst the dividend cancellation in 2020 and non-accrual throughout the first three quarters of the year helped our capital position, the resumption of distributions is a key part of our capital plans, given our strong capital position and resilient financial performance.

Turning to slide 9, you'll see that we've provided colour on the various moving parts over the next couple of years.

Slide 9: CET1 ratio flightpath to target range of 13-14%

You will see on the chart a re-based CET1 position of 14.7% that takes into account the share buyback and two regulatory items that impact our capital base in Q1 this year.

First is the removal of the PVA relief which the PRA granted for 2020.



Second is the IFRS 9 transitional relief scalar for impairment stock taken in 2018 and 2019 – which reduces from 70% to 50% this year.

From here, our prudent capital planning takes into account the headwinds and tailwinds we foresee in the coming years. And of course these are reflected in the calibration of our CET1 target range of between 13 and 14%, which I'll explain in a moment.

As you heard me say, our resilient business model delivered profits in each quarter of 2020, despite a very challenging year for the sector. We are confident that our diversified business model, and the sustained performance of our CIB in particular, will allow us to continue to generate retained earnings, and to help offset the headwinds ahead.

Given our strong excess capital position, supported by our profitability, we expect to continue to return capital to shareholders – which reflects the soundness of our capital management, and of course is a decision taken hand in hand with our regulator.

As ever, maintaining a strong CET1 ratio is a key tenet of our capital management framework and our capital plans take into account anticipated headwinds, which you will see on the slide. Taking these in turn.

The first two on the list have been flagged throughout the stress period last year, with the potential for credit rating migration to drive a pro-cyclical increase in RWAs, and for impairment stage migration to impact the amount of IFRS 9 transitional relief.

Next, you will have seen the PRA statements about their stance on the risk weighting of software assets, and for that benefit to be reversed during the course of the year, in full, after a consultation that was launched this month. On the previous page you will have seen that under the CRR the software benefit contributed around 30bps of the accretion in CET1 in Q4, and our prudent plan assumes this to be reversed in due course.

Next, we're flagging that the IFRS 9 transitional relief scalar will continue to amortise through to the end of 2024, and there is a slide in the appendix that provides further detail on this.

On the 2022 regulatory items, which we have also flagged in the past, the guidance remains of low single digit billions RWAs for each of the changes to mortgage risk weighting models and SA-CCR.

And finally, like our peers, we have a pension deficit reduction plan, with a £700m payment this year and £300m next year.

Taking all the headwinds and tailwinds into account, we have today announced a target for our CET1 ratio of between 13 and 14%, and I'll spend a moment on this on the next slide.

Slide 10: Material increase in headroom above MDA hurdle

You will recall that throughout the stress period last year, we guided to maintaining a capital position with an appropriate headroom above the MDA hurdle.

Driven by our strong capital accretion and the regulator taking supportive actions, including taking the MDA hurdle down, we ended the year with a record headroom above the MDA of just under 400 bps, equivalent to £12bn.

Of course holding an appropriate headroom to our MDA continues to be part of our capital management framework, and is taken into account when we calibrate our target.

Going forward, we're aware that the MDA hurdle could change due to the dynamic nature of the pillar 2A calibration and a potential reintroduction of a UK countercyclical buffer – or CCyB – in the medium term.

Our CET1 ratio target will continually be assessed, but the target range also reflects the potential fluctuations in the MDA hurdle.

With the CCyB, we note that the regulator acted decisively at the beginning of the pandemic to remove the requirement, as they also did in 2016 following the outcome of the EU referendum. So it is clear that the CCyB is a macro stress buffer.

So we're pleased to operate with a record headroom to the MDA hurdle during the stress in 2020, and we continue to prudently plan to maintain an appropriate headroom.

Turning now to leverage.

Slide 11: Managing evolving future Group minimum leverage requirements

The leverage ratios at year end of 5.3% and 5.0% on a spot and average basis respectively reflect our continued sound leverage profile.

As you can see on the slide, we operate well above minimum requirements and our leverage profile has been running at a consistent level for the last four years.

We note that the FPC is due to report back on its long-awaited leverage review this summer, with the potential to move to a single leverage framework for UK banks.

As you know, as a UK bank we only have a leverage requirement under the UK basis, and our obligation under the CRR basis is currently only one of disclosure.

Whilst the CRR basis doesn't have a cash exemption, the UK basis does following the PRA's decision in 2016. Given this prior position, it seems a reasonable assumption that the final state UK leverage rules would include a form of cash exemption, noting also that this is permitted under Basel rules.

I mention this as it could be relevant for the BoE's MREL review, which is also due to report back this year – more on this on the next slide.

Slide 12: MREL position already compliant with all 2022 requirements

As you can see, our prudent build of MREL eligible debt over many years has meant that we are ahead of 2022 requirements on all bases.

Given this conservative position, our MREL issuance plan for the year of around £8bn is consistent with recent years and when comparing like for like with HoldCo and OpCo maturities and calls, we expect to be a net negative issuer for the year.

You may have seen that the BoE published MREL requirements for all UK banks in January which showed the CRR leverage basis is binding for us alongside a number of other banks.

However, it is possible that our MREL requirement reverts to an RWA basis given the leverage review and the possibility of a cash exemption to be retained in the final rules as I just mentioned.

It's also notable that the current balance sheet reflects a surge in cash balances across the banking system caused by central banks' response to the pandemic, albeit we do acknowledge that this could persist into the medium term.

While we wait for the outcome of the leverage review, we will continue to prudently manage our MREL position, and our intended issuance volume reflects this.

Slide 13: Capital structure well established

Turning to the next slide – which illustrates the structure of our total capital position,

AT1 and Tier 2 capital are likely to once again form part of our circa £8bn MREL issuance plan for this year.

We continue to target a conservative AT1 headroom, albeit this may temporarily be at an elevated level – recognising that AT1 also supports leverage – as we see attractive high returning opportunities in our markets business, where returns are materially in excess of the cost of AT1

On a long term basis, our principles that underpin our AT1 target remain the same – the headroom serves to manage potential RWA and FX fluctuations, and to manage through potential redemptions and any refinancing activity.

In the near- to medium-term, this means managing through the RWA headwinds I mentioned a moment ago, and planning for the call dates for our outstanding AT1 instruments in 2022 and 2023.

We also manage these risks in our Tier 2 stack, and thereby aim to hold an amount in excess of the 3.2% requirement.

With regards to legacy capital instruments, we have received the Bank of England's request for the remediation of the prudential treatment of legacy instruments, along with the other UK banks. And, of course, we will respond to the Bank of England before the 31st of March deadline.

As you will have heard from us on prior calls, we have a very modest amount of Barclays Bank PLC issued capital instruments of which we believe the majority should continue to count as capital after the end of this year.

Slide 14: High quality liquidity position

Turning now to liquidity which you can see on slide 14.

The liquidity pool of £266bn and our LCR Pillar 1 ratio of 162% represent a surplus above the 100% pillar 1 regulatory requirement of close to £100bn.

The December LCR position is stable year on year, following heightened intra-year positions that reflected strong deposit growth and a temporary and prudent increase in cost-effective, short term funding, which has now unwound. Meanwhile, we continued to deploy excess liquidity to our businesses, allowing them to capitalise on prevailing market opportunities.

Looking forward, we intend to maintain a conservative liquidity position underpinned by a prudent funding profile given the persistent macro uncertainty, as you can see on the next slide.

Slide 15: Conservative loan: deposit ratio

The significant reduction of the LDR since the end of 2019 was primarily driven by the unprecedented level of deposit growth observed across the market through the crisis. This is a structural phenomenon driven by government and central bank policy that saw GBP money supply up 14% on a year on year basis, whilst credit was up only 4%.



This money supply expansion contributed to an 11pt reduction in the LDR, as our own deposit base increased by £65bn or 16%, driven predominantly by a £43bn or 23% growth across the CIB and Business Banking.

We have continued to apply very conservative planning assumptions on the evolution of the deposit book to ensure we are well positioned amidst the ongoing uncertainty.

Slide 16: Strong legal entity capital and liquidity positions

Turning now briefly to our main subsidiaries which you can see on slide 16.

Both Barclays Bank PLC and Barclays Bank UK PLC continue to run prudent regulatory metrics.

Barclays Bank Ireland PLC, which sits beneath BB PLC, was built out in response to Brexit, with a significant expansion in its capabilities. Following the end of the transition period in December, Barclays is positioned to continue providing services in the EU through this Irish subsidiary.

It also means that we're not dependant on the EU and UK agreeing to Financial Services equivalence to continue to serve our clients and customers.

Turning now to our holding company and subsidiary credit ratings which you can see on slide 17

Slide 17: Strategic priority to maintain strong ratings

Maintaining strong credit ratings for all our entities with all of the agencies continues to be a strategic priority for the Group.

Due to the macroeconomic backdrop, a number of our entities have a negative outlook consistent with the rest of the sector. We were, though, pleased when Fitch removed the rating watch negative in the second half of last year.

We continue to highlight our credit strengths to the rating agencies through our ongoing intensive engagement, and in particular the relative ratings levels versus peers.

Slide 18: Ambition to be a net zero bank by 2050

I'd like to take a moment to talk about ESG on slide 18.

As Jes mentioned this morning, last year we made particular progress on our commitments towards climate change. We set an ambition to be a net zero bank by 2050, and committed to align all of our financing to the goals of the Paris Agreement.

I'm proud of the continuing efforts in this regard within Treasury.

Our green bond holding in our liquidity pool now stands as £3.1bn, an increase from the prior year position of £2.7bn.

And in November we issued our second green bond which made us the first UK bank to issue a Sterling denominated green bond – the MREL eligible 6NC5 senior from our HoldCo.

We'll continue to seek opportunities to expand our green offering to the market as we continue to deepen our dialogue with our investors on sustainability.

Slide 19: Kathryn McLeland

Before I finish, let me make a few remarks on LIBOR reform given the impending deadline set by the FCA for the end of this year.

For the first time, we have a dedicated note to our financial statements in our annual report on interest rate benchmark reform, with exposures and maturity profiles to provide colour on our progress.

We've been actively engaging with our customers and counterparties to transition or include appropriate fallback provisions. The ISDA LIBOR Fallback Protocol and the ISDA Fallback Supplement which went live from 25 January, are a major step forward in the transition plan.



And importantly, we have delivered the vast majority of capability to offer counterparties and customers non-Libor referenced products across loans, bonds and derivatives, in line with official, working group expectations and milestones.

In terms of our own English law Libor linked liabilities, we were the first UK bank to offer investors the opportunity to transition away from Libor across an extensive range of securities at the same time.

These included new and old style capital instruments and we were pleased to have succeeded in amending the terms of five securities, including three AT1s and one senior MREL security.

This was an important first step, which demonstrated our desire to fulfil the regulator's objective to prepare for a post-Libor world, and to offer investors an opportunity to reduce their own Libor exposures.

Conclusion

So to conclude. We finished an incredibly turbulent year with a strong balance sheet, a record CET1 ratio and robust liquidity metrics.

Our diversified business model supported our ability to remain profitable in every quarter, and as we look ahead into 2021, we are in a strong position to be able to support the economy, serve our customers and looking after the interests of colleagues and other stakeholders.

And with that I'll hand back to Tushar.

Slide 20: Q&A

Thank you Kathryn.

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

Operator, please go ahead.

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- regulatory capital, leverage, liquidity and resolution is based on Barclays' interpretation of applicable rules and regulations as currently in force and implemented in the UK, including, but not limited to, CRD IV (as amended by CRD V applicable as at the reporting date) and CRR (as amended by CRR II applicable as at the reporting date) texts and any applicable delegated acts, implementing acts or technical standards and as such rules and regulations form part of UK law pursuant to the EU (Withdrawal) Act 2018, subject to the temporary transitional powers (TTP) available to UK regulators to delay or phase-in on-shoring changes to UK regulatory requirements between 31 December 2020 and 31 March 2022. Throughout the TTP period, the Bank of England and the PRA are expected to review the UK legislation framework and any disclosures made by the Group will be subject to any resulting guidance. All such regulatory requirements are subject to change. References herein to 'CRR as amended by CRR II' mean, unless otherwise specified, CRR as amended by CRR II, as it forms part of UK law pursuant to the European Union (Withdrawal) Act 2018 and subject to the TTP, as at the applicable reporting date;
- MREL is based on Barclays' understanding of the Bank of England's policy statement on "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)" published in June 2018, updating the Bank of England's November 2016 policy statement, and the non-binding indicative MREL requirements communicated to Barclays by the Bank of England. Binding future MREL requirements remain subject to change including at the conclusion of the transitional period, as determined by the Bank of England, taking into account a number of factors as described in the policy statement and as a result of the finalisation of international and European MREL/TLAC requirements. The Bank of England is currently conducting an MREL review, which may drive a different 1 January 2022 MREL requirement than currently proposed. The Pillar 2A requirement is also subject to at least annual review;
- future regulatory capital, liquidity, funding and/or MREL, including forward-looking illustrations, are provided for illustrative purposes only and are not forecasts of Barclays' results of operations or capital position or otherwise. Illustrations regarding the capital flight path, end-state capital evolution and expectations and MREL build are based on certain assumptions applicable at the date of publication only which cannot be assured and are subject to change.

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