

Barclays PLC H1 2021 Results**Fixed Income Conference Call Speech****Tushar Morzaria, Group Finance Director****Kathryn McLeland, Group Treasurer****Dan Fairclough, Group Head of Balance Sheet Management****Title slide: Barclays PLC Fixed Income Investor Call – H1 2021 Results Announcement**

Good afternoon everyone and welcome to the fixed income investor call for our half year 2021 results.

I'm joined today by Kathryn McLeland, our Group Treasurer, and Dan Fairclough, our Group Head of Balance Sheet Management.

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

Slide 3: H121 Group highlights

I'll start with a summary of our H1 performance, before providing further details on impairment.

We again saw the benefit of our diversified business model, as the strength of the CIB performance continued to offset the effects of the pandemic on our consumer businesses.

Overall income decreased 3%, albeit on a constant currency basis income was up, and costs increased by £0.6bn to £7.2bn, including structural cost actions of £0.3bn.

After a small impairment charge in Q1, we had a large release in Q2, giving a net release for the half of £742m.

This resulted in PBT for the half of £5.0bn – a significant increase on the £1.3bn for H1 last year – generating a RoTE of 16.4% for the half.

The CET1 ratio ended the half at 15.1%, well above our target range of 13-14%.

Let me provide further colour on impairment.

Slide 4: Impairment: Q221 net release of £0.8bn, due to improved macro outlook, lower unsecured balances and benign credit environment

There was a net impairment release in each of the businesses in Q2, and the largest release was in BUK, followed by CIB, as you can see from the chart on the left.

On the right we've shown the split of the charge for recent quarters, and you can see in Q2 that we've seen a net release of Stage 1 and 2 impairment, amounting to just over £1bn, while the Stage 3 impairment was £221m, resulting in the net release of £0.8bn.

The Stage 1 and 2 release was driven by the improved macro-economic variables used in our scenario refresh, summarised on the next slide, and lower unsecured balances, but our coverage ratios remain above pre-pandemic levels.

Slide 5: Improved macroeconomic variables drove the impairment release

The MEVs used for the Q2 modelled impairment are shown in the upper table, and you can see the significant improvements in the 2021 and 2022 forecasts.

However, there still remains significant uncertainty as to the levels of default we'll experience as support schemes are wound down.

We want to make sure that as we apply improved MEVs, we don't lose sight of this risk. Therefore, we've made refinements to our post-model adjustments to focus them more on the cohorts of borrowers we believe are most at risk from the tapering of support.

The result is that we are maintaining a significant economic uncertainty PMA, which has increased slightly to £2.1bn.

In the appendix there is a summary of the coverage ratios across our lending portfolios, and you'll see that they are significantly higher versus pre-pandemic across wholesale and unsecured consumer lending.

Let me pause there and hand over to Kathryn to run through the balance sheet highlights.

Slide 7: H121 highlights

Thanks Tushar.

As you can see on this slide, we finished June with a robust balance sheet across all our key metrics. Our CET1 ratio was 15.1%, MREL finished ahead of our end-state requirement at 33.7% of RWAs, and our LCR remains at a very strong position of 162%.

I'll start with some comments on capital, on slide 8.

Slide 8: CET1 ratio increased to 15.1% driven by profits and lower RWAs

Our reported CET1 ratio increased over the quarter by 50bps to 15.1%, which is flat compared to the end of last year, despite our share buyback and other headwinds.

The Group delivered strong profitability in both quarters this year, which contributed to our capital base.

Specifically in Q2, the lower stage 2 impairment balances led to a reduction in the IFRS 9 transitional relief of c.30bps, resulting in the convergence between the transitional and fully loaded ratios to the pre-pandemic level of c.40bps.

RWAs were down c.£7bn over the quarter, adding 34bps to the CET1 ratio.

The next slide provides what we hope is some useful colour on how we see the capital trajectory from here.

Slide 9: CET1 ratio target range continues to be 13-14%, but expect to remain above that in 2021

You will see on this chart a re-based Q2 CET1 ratio of 14.8%, which takes into account the share buyback and the scheduled pension deficit reduction contribution in Q3.

Looking ahead, our prudent capital planning takes into account both the headwinds and tailwinds we foresee.

Importantly, overarching all of these plans is our confidence that our diversified business model will continue to generate capital, more than offsetting upcoming headwinds.

And, given the capacity created by our profitability, we expect to continue to return capital to shareholders over time. This reflects the soundness of our capital management, and of course is a decision taken hand in hand with our regulator in the normal course of business now that the temporary guardrails have been lifted.

Returning briefly to the anticipated headwinds, for the rest of the year we continue to highlight the potential for Stage 3 impairment migration to impact the amount of transitional IFRS 9 relief, and we also anticipate RWAs are likely to increase from the 30 June level.

We have listed below the known capital headwinds we see coming next year.

Firstly, the software benefit will be reversed at the start of 2022, as you will have seen in the PRA's policy statement 17 published earlier this month.

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.

For SA-CCR, which we have flagged in the past, the guidance remains of low single digit billions of RWAs.

Finally, the pension deficit reduction plan has a £300m payment next year, well below the £700m contribution in 2021.

You may have noticed that two items that we had previously highlighted as headwinds are now not expected to materialise.

The first is the pro-cyclical impact on RWAs that we had previously anticipated, as we had assumed continued macroeconomic deterioration would lead to higher risk weight density.

Whilst we still remain cautious, and our internal capital plans continue to be alert to these risks, we acknowledge the now improved and more stable economic outlooks in our main markets. So we are no longer calling out material pro-cyclicality in our base case.

The second item is the mortgage changes from the PRA. The aggregate impact of days past due changes, a move to a hybrid through-the-cycle and point-in-time model, and a portfolio level risk weight floor, is now expected to be negligible. And so, the previous guidance of an increase of low single digit billions of RWAs next year no longer applies.

Taking all these factors into account, we continue to target a CET1 ratio of between 13 and 14% over our planning cycle, and I'll spend a moment on this on the next slide.

Slide 10: Continue to target appropriate headroom above the MDA hurdle

As you can see on slide 10, our buffer to the MDA hurdle of 11.2% is 390bps, or c.£12bn.

Holding an appropriate headroom above our MDA hurdle continues to be a critical part of our capital management framework.

Over the remainder of the year, we expect some decline in the ratio, as impairment on Stage 3 balances feeds through to the ratio, in addition to some RWA increases, but we would expect to end the year comfortably above our target range of 13-14%.

We continue to be mindful of the uncertain environment, and the 2022 headwinds that I just talked about, such as the c.40bps software reversal.

We are of course also allowing for business growth and, although the timing remains uncertain, we are ensuring that the balance sheet is well positioned to capture new flows as the recovery takes hold.

Our capital position, therefore, reflects the prudent approach that we always take, as we navigate the headwinds and opportunities ahead.

Turning now to leverage.

Slide 11: Group leverage position appropriately managed

The leverage ratios of 5.0% and 4.8% 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 the consultation paper published by the FPC and PRA last month, which broadly maintains the current UK leverage framework both in terms of calibration and requirement.

Therefore, our approach to managing the leverage ratio remains unchanged.

Turning to MREL on slide 12, where, due to the prudent build of MREL eligible debt over many years, we are now ahead of our 2022 requirement.

Slide 12: MREL position well placed to meet 2022 requirements

As you know from earlier calls, we had assumed that the RWA calculation basis would be the most binding and our base case from an MREL planning perspective. This does remain the case, given the recent leverage CP, which proposes to keep the UK leverage framework with a cash exemption and which we expect will also apply to the MREL framework.

Although we will of course wait for final confirmation following the conclusion of the FPC and PRA's leverage review which remains out for consultation, we do not anticipate a change to our base case.

Our MREL issuance plan for the remainder of the year is consistent with what we guided to at the beginning of the year – namely a full year target of around £8bn. As at June we have issued £5.3bn.

Since we have been active already this year in Tier 2 transactions, we expect our remaining funding over the year to be in senior and AT1.

As you know, we have been active with green issuance in the past, having been the first UK bank to issue a Green Bond a few years ago, and I'm pleased that we have released our

updated and expanded green issuance framework to enable a broader set of liabilities for future issuance.

Slide 13: Capital structure well established

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

We continue to target a conservative AT1 headroom. We have noted before that this may temporarily run at an elevated level – given that AT1 also supports leverage – and we see attractive high-returning opportunities in parts of our markets business, where returns are materially in excess of the cost of AT1.

Through the cycle, our principles that underpin our AT1 target remain the same – the headroom serves to manage any RWA and FX fluctuations, and through possible redemptions and refinancing activity.

In the near- to medium-term, this means managing through the RWA headwinds I mentioned a moment ago, and planning for possible call dates of our AT1 instruments in 2022 and 2023, and any call decision would of course be subject to regulatory approval.

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

With regards to legacy capital securities, we often get asked about the Bank of England “Dear CFO letter” from last November and the upcoming end to the original CRR transitional rules in December. So, I think it is worth providing some detail here.

Ultimately our thinking remains unchanged - it is not an area of concern for us, given the modest and short tail of £1.7bn which could exist beyond 2022.

In terms of our thinking on individual legacy capital securities, own funds eligibility will be a factor in our decision-making, as qualifying securities typically remain in scope for regulatory stabilisation powers. Overall, our analysis will be on a case by case basis, subject to relevant regulatory considerations and we will assess each security on its own merits.

We are engaged with the Bank of England and the PRA on this topic. And, so given these securities are listed, we are mindful of the sensitivities of this topic and so do not wish to discuss individual securities.

There are two main areas that the Bank of England is looking at – infection risk and impediments to resolvability.

Infection risk relates to legacy capital securities which impact own funds and/or MREL eligibility. For Barclays, this issue can be solved by the subordination of some internally issued AT1s relative to other securities outstanding, subject to regulatory approval. And so, we do not view this as a concern.

On the other area of focus, namely impediments to resolvability, we have no externally issued legacy capital securities outstanding from our Group resolution entity, Barclays PLC.

Furthermore, the vast majority of our legacy capital securities that do exist continue to qualify as own funds in some capacity to 2025 or beyond. From the end of this year, they will also not be included when meeting our MREL requirements of their issuing entity, Barclays Bank PLC, or the Group. For these reasons, we are comfortable with our position.

We will continue to engage with the Bank of England and the PRA on this topic, including as part of our Resolvability Assessment Framework submission which is due in October.

Slide 14: High quality liquidity position

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

The liquidity pool of £291bn and our LCR Pillar 1 ratio of 162% represent a surplus above the 100% regulatory requirement of £108bn.

You'll see that the LCR position has been stable throughout this year, maintaining a prudent balance between holding a healthy excess and deploying the liquidity to our businesses, to enable them to capitalise on prevailing market opportunities.

Let me now turn briefly to our funding profile, and loan-to-deposit ratio on the next slide.

Slide 15: Conservative loan: deposit ratio

We continue to see an elevated level of deposits across the market, driven by government and central bank policy, that saw money supply grow to unprecedented levels – by May this year, it had grown by 17% versus the end of 2019.

As you can see, even before the pandemic we were running at a conservative LDR, of 82% as at the end of 2019, and today it stands at 70%, with deposits across the Group up by 20% since the end of 2019.

We have conservative assumptions in our funding plan, being mindful of potential pressures on the deposit book. Though as you heard from Tushar on this morning's call, we do feel much of this deposit growth will be on our balance sheet for some time.

Slide 16: Strong legal entity capital and liquidity positions

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

We continue to manage the regulatory requirements of all our subsidiaries prudently, and you can see here the reported metrics of both Barclays Bank PLC and Barclays Bank UK PLC.

In Q2, the US IHC passed the most recent CCAR exercise, with our capital metrics either in the top or second quartile amongst all participating banks, providing further evidence of our ability to manage capital appropriately across our subsidiaries.

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

Improving our credit ratings profile continues to be a strategic priority for the Group.

It was particularly pleasing to see our outlook with S&P undergo a double revision in the space of four months, from negative to stable in February, and stable to positive in June.

These were actions in recognition of strengths specific to our credit profile – most importantly for them was the stable strategy that has been underpinning our financial performance.

There were also sector-wide revisions to outlooks for European banks - Fitch recently revised all Barclays outlooks from negative to stable, and Moody's also stabilised BBUK's outlook.

All outlooks for all our entities are now either on stable or positive outlooks, and our credit rating position is in a better place than immediately prior to the pandemic.

Slide 18: Kathryn McLeland

So to wrap up. We continue to manage through an uncertain time with a strong balance sheet, a prudently managed CET1 ratio and robust liquidity metrics.

Our diversified business model continues to deliver meaningful capital generation, and as we look ahead, we are in a strong position to support the economy, serve our customers and look after the interests of colleagues and other stakeholders.

And with that, I'll hand back to Tushar.

Slide 19: 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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- 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, the July 2021 Bank of England consultation paper proposing updates to such policy statement in relation to its MREL review and its 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 its MREL review, along with international developments. 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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