

**Barclays PLC H1 2022 Results****Fixed Income Conference Call Speech****Anna Cross, Group Finance Director****Daniel Fairclough, Group Treasurer****Title slide: Barclays PLC Fixed Income Investor Call – H1 2022 Results Announcement**

Good afternoon everyone and welcome to the fixed income investor call for our half year 2022 results.

I'm joined today by Dan Fairclough, our Group Treasurer, who I will hand over to in a moment after my introductory remarks.

This morning I focussed on three key themes, on our continued revenue momentum, our focus on costs and our readiness for any macroeconomic deterioration.

It's on this last point I want to reiterate the points I made, given the natural attention impairment and asset quality receives from our fixed income investor base.

**Slide 3: Statutory PBT of £3.7bn and RoTE of 10.1% in H122**

But let me begin on slide 3 with a very brief overview of our half year P&L highlights

For H1, our broad-based income growth partially offset the increase in costs, which reflected the elevated level of litigation & conduct charges.

Impairment remained low, reflecting the quality of our books and level of provisioning.

As a result, we generated a statutory RoTE for the half of 10.1%.

Let me now return to impairment, on slide 4.

**Slide 4: Impairment: Q222 charge of £0.2bn, reflecting lower unsecured lending balances and maintained appropriate coverage ratios**

The net charge for the quarter was £200m, compared to a release last year.

A lot of factors feed into this net charge, so I want to focus first on our risk experience and the quality of our portfolios

Delinquency rates in the businesses remain stable at low levels, with 30-day arrears in UK cards at 1.0% and in US cards at 1.4%.

We continue to track customer and client behaviour very carefully, given heightened concerns over an affordability crisis, in order to identify early warning signs.

We have not yet seen worrying indicators, and payment rates continue to be high, as customers have reacted rationally to the economic environment.

As a result, card balances in both the UK and US are down on pre-pandemic levels on a local currency basis, although the latter have started to grow again this quarter, and we believe that the quality of these books is higher than before the pandemic.

As a result, despite the macroeconomic uncertainty, we are comfortable with our coverage levels, with UK cards for example at 10.9% and US cards at 8.4%.

Our total impairment allowance was £6.0bn at the end of the quarter, of which £1.3bn represents post-model adjustments, or PMAs, as shown on the next slide.

**Slide 5: Retaining management adjustments due to uncertainty**



The macroeconomic variables, or MEVs, we have used at Q2 for modelled impairment are based on consensus forecasts. However, we are conscious of concerns that there could be further downside credit risk.

Therefore, we are retaining significant PMAs, totalling £1.3bn.

As an illustration, I would also point out that when we model impairment using the MEVs for the “downside one” scenario, the implied increase in modelled impairment is £0.5bn, which is significantly less than the PMA we are still holding.

Taken together with our coverage ratios, this supports our expectation that we will continue to have quarterly impairment charges below the pre-pandemic levels in the coming quarters.

And with that, I’ll hand over to Dan for the balance sheet highlights

#### **Slide 7: H122 highlights**

Thanks Anna.

We ended June with a robust position across all aspects of our balance sheet, as evidenced on the slide.

Our CET1 ratio was 13.6%, the spot UK leverage ratio ended at 5.1% and MREL was 30.9% of RWAs.

Liquidity continues to be strong with an LCR ratio of 156%.

I’ll begin with some comments on capital, on slide 8.

#### **Slide 8: Q222 CET1 ratio of 13.6%**

We were pleased to end the quarter with a CET1 ratio of 13.6%, firmly within our target range. This reflects the impact of the over-issuance of securities under our US shelf registration that Venkat and Anna explained this morning.

Let me walk through the CET1 ratio in Q2 by explaining the major movements, excluding FX and the over-issuance matter, which I’ll return to.



Firstly the numerator – the main driver for CET1 growth was our £1.4bn of attributable profit, which contributed 42bps of ratio accretion.

Fair value moves through reserves decreased CET1 by £0.6bn, equivalent to 17bps, largely caused by the impact of increased interest rates on the value of the bonds in our liquidity pool. Of course, higher rates are expected to be a material tailwind for NII over time.

Secondly the denominator – RWAs grew by £6.4bn from investments and business growth, equivalent to 27bps, including the GAP acquisition and growth in the CIB as our FICC business had another standout quarter.

Let me now return to the other items

The over-issuance had a combined 17bps effect on capital from the net loss of £341m, including a reserve related to a potential SEC resolution and the increase of £1.7bn in RWAs associated with the hedging arrangements.

And FX moves had a neutral impact on the CET1 ratio given our longstanding hedging arrangements, but accounted for large gross movements with £9bn of RWA growth offset by a £1.3bn increase in our currency translation reserve

Hopefully you will also find helpful the re-based view we show on the right hand side of the slide – the £500m share buyback announced today, the second this year, will be deducted off off capital in Q3 and is expected to be broadly offset by the tailwind from the removal of the £4.5bn of RWAs on the over-issuance hedging arrangements.

### **Slide 9: 13-14% CET1 ratio target continues to provide appropriate headroom above evolving MDA hurdle**

As we have always stated, holding an appropriate headroom above our MDA hurdle is central to our capital plans.

As you can see on slide 9, with our CET1 ratio at 13.6%, this gives 270bps of headroom above the MDA hurdle, or £9bn in absolute terms.

Our 13-14% target range accommodates for changes to the MDA hurdle that we foresee, including the phased reintroduction of the UK countercyclical buffer (or CCyB), starting at the end of this year at 1% and then 2% in Q3 2023, which translates into 0.5% and 1% requirements respectively for the group.

We remain confident that our target provides an appropriate headroom, not least given our capital generative ability. As we've previously mentioned, delivering a 10% RoTE corresponds to c.150bps of CET1 accretion.

We know from experience that the CCyB is a regulatory stress buffer, and we would expect the requirement to be reduced or eliminated in the event of a potential macroeconomic stress, with recent experiences of this in 2016 and 2020.

It's also worth noting the MDA hurdle is subject to an at least annual calibration of our pillar 2A requirement.

We indicated to the market earlier in the year that we expect to go into the triennial pension valuation as at 30 September 2022 in a surplus position, both from an IFRS and a funding point of view, and the element of our Pillar 2A requirement for pension risk may reduce.

### **Slide 10: Capital structure well managed**

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

Our total capital position of 19.9% continues to provide a prudent headroom of 370bps above the regulatory requirement.

You can see on the slide that we hold 3.6% of RWAs in AT1 format, which is below the 3.9% level we held at the year end, and continues to represent a prudent headroom to the 2.3% regulatory prescribed level.

We have consistently communicated the rationale for our AT1 headroom – primarily as a buffer above Tier 1 capital requirements as we manage any RWA and FX fluctuations, as we’ve observed over the year, with the added benefit that this capital tier also supports leverage.

Given AT1 capital is able to support regulatory metrics across a number of fronts, you’ll note on the slide that we show our current preference to run a surplus at the AT1 level rather than for Tier 2.

We also show on the slide the call profile of our AT1s, and we are mindful of potential calls ahead of time as we calibrate our issuance plans.

On legacy capital, our position is unchanged. We continue to assess each security on a case by case basis, noting that the population of securities has been reducing.

#### **Slide 11: MREL position well established**

Moving onto the wider MREL funding stack.

As you can see on slide 11, we have a prudent MREL position and are in excess of regulatory minimums.

Despite the narrow issuance windows, we were pleased to have made good progress against our £9bn MREL 2022 funding plan with our senior and AT1 transactions, and we have c.£5.5bn remaining.

We continue to look for issuance opportunities across senior, Tier 2 and AT1, for the remaining plan this year.

#### **Slide 12: Resolvability Assessment Framework – no shortcomings across all areas of assessment**

I want to touch briefly on the BoE’s resolvability assessment framework, or RAF, published last month, on slide 12.

With a robust framework in place, we received the highest score possible with regards to our MREL resolvability capabilities in the RAF. This was helped, not least, by our strong record of proactive MREL issuance since 2013.

You can see on the slide that, from a treasury perspective, we were also deemed to have no material issues in terms of our funding in resolution capabilities.

And, overall, we were pleased that the Bank of England assessed that there were no shortcomings, deficiencies or substantive impediments identified in our resolution capabilities.

### **Slide 13: High quality liquidity position**

Let me now turn to slide 13 to talk about our liquidity position in more detail.

The liquidity pool of £343bn and our Pillar 1 LCR ratio of 156% represent a £119bn surplus above the minimum regulatory requirements.

We continued to proactively manage market risk in our liquidity pool, and maintained our approach to reduce our rates exposure and increased the already material holding of inflation linked bonds

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.

Our NSFR position continued to be above requirements too, and we've now commenced quarterly disclosures to the PRA.

Turning briefly to our deposit profile on the next slide.

### **Slide 14: Growing deposit base**

Deposits continued to grow over the quarter by £22bn, and remain elevated when compared to levels prior to the pandemic.

We continue to monitor closely for any signs of changing depositor behaviour that could indicate future deposit outflows through our key lenses including sector, demographic and account balance size.

We particularly track our vulnerable customer base by leveraging our historic data on consumer behaviour but, to date, we continue to observe stable dynamics.

Clearly, a large driver for the record deposit volumes was the growth in money supply driven by central banks' quantitative easing initiatives, and so naturally we watch closely the BoE's comments on quantitative tapering.

Whilst market expectations last month appear to be of a moderate volume of Gilt sales, we continue to run a prudent liquidity level to cover for alternative deposit flightpath scenarios

### **Slide 15: Structural hedge**

With the sustained increase in deposit balances, you can see on slide 15 that this led to us identifying further hedgeable balances.

We grew the structural hedge programme by £18bn in Q2, and by £85bn since the beginning of the pandemic, albeit we maintain prudent levels of unhedged balances as we remain alert to potential signs of reversal of the record deposit volumes.

As the balances continue to roll over into higher swap rates, you can see the gross hedge income has grown materially in the latest quarter, by a third versus Q1.

### **Slide 16: Strategic priority to maintain strong ratings**

On credit ratings, we show our current position on slide 16.

Improving our credit ratings continues to be a key strategic priority, and we maintain an active dialogue with all the agencies.

Our main aim is to continue to demonstrate the execution of our strategy in providing a sustained improvement in our profitability, which we believe is key in converting the positive outlooks with S&P and Moody's.

### **Slide 17: Sustainable finance activities through Treasury**



Let me finish with an update on our sustainable finance initiatives within Treasury, on slide 17.

As you'll know from previous calls, we have been active for a number of years in supporting the CEO's key strategic pillar of aiding the transition to a low carbon economy.

We are longstanding investors in green bonds within our liquidity pool portfolio, and we were one of the early issuers of green bonds too.

I spoke before about our Sustainable Impact Capital Programme, which has a mandate to invest up to £175m of equity capital in sustainability-focused start-ups by 2025.

This Programme is housed in Treasury within the Principal Investments business, which is where the firm's growth stage equity investing and portfolio management capability sits.

With £81m invested to date, up from £54m at our last update, we are well on track to deliver and exceed the £175m target.

We've invested in 14 companies across a variety of sectors, but all supporting the transition to a more sustainable environment.

For example, energy transition is a key pillar and we have a number of portfolio companies in this space, such as Protium which is a pioneering green hydrogen development company and Energy Dome which is an innovative company aiming to solve the long-duration energy storage problem.

We know that the transition to net zero is an important part of the investment decision making process for our stakeholders, and we look forward to continuing this dialogue as the ESG landscape evolves.

### **Slide 18: Daniel Fairclough**

And so to summarise, we were pleased to deliver strong and stable metrics across our balance sheet, and we continued to support the Group's execution of our strategy as we navigate a challenging macroeconomic backdrop.

And with that, I'll hand back to Anna



**Slide 19: Q&A**

Thank you Dan.

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 December 2021, updating the Bank of England's June 2018 policy statement, 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, along with international developments. The Pillar 2A requirement is also subject to at least annual review;
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