

**Barclays PLC Q3 2022 Results****Analyst and Investor Conference Call Speech****C.S. Venkatakrisnan, Barclays Group Chief Executive****Anna Cross, Barclays Group Finance Director****Slide 3 - Q322: Another quarter of strong returns and income growth**

Good morning everyone and thank you for joining us today.

I am pleased to report another strong quarter, extending the robust operating performance that Barclays has delivered so far this year.

In the third quarter, Profit Before Tax was £2bn, generating a Return on Tangible Equity of 12.5%, and an Earnings per Share of 9.4 pence.

This leaves us in a good position to deliver our full year statutory Return on Tangible Equity target of above 10%.

I would like to highlight in particular, the strength and consistency of our results as we continued to execute on our business.

**Income momentum**

We see broad-based income momentum across our three operating businesses.

Group income growth was 17% in the third quarter year on year, excluding the impact from the over-issuance of securities, a subject to which I'll return in a moment.

There were several important drivers of this performance that I wish to highlight.

First, in the Corporate and Investment Bank, we continued to gain revenue share in our Markets business, driving the best Q3 income in both Markets and FICC in recent years.

Notably our FICC performance was particularly strong and ahead of our US peers, with income up 63% in US dollars, as we supported our clients in very challenging markets.

In Barclays UK, we positioned ourselves well for rising interest rates, with a growing contribution from our structural hedge as we locked in higher yields.

Within the Consumer Cards & Payments business, growth in our US cards balances was delivered by a recovery in spending and the first quarter of our partnership with GAP, which is starting to show results.

Taken together, both balance growth and management of our sensitivity to higher interest rates contributed to significant growth in net interest income for the Group.

And finally, whilst we are a UK domiciled bank, we have a truly global footprint, providing attractive exposure to the US economy, with over 40% of our Group income generated in US dollars.

#### Challenging macroeconomic outlook

While our income story paints a compelling picture, we remain however, cautious about the macro-economic outlook globally, and have been approaching it accordingly over the last year.

In fact, we have been prudent in our balance sheet management for many years – in particular, since the days following the EU referendum in the UK.

We have reviewed our corporate loan portfolios, particularly in more vulnerable sectors, reducing exposure and managing our risk by acquiring significant credit protection.

As with many of our peers, we have taken mark downs in some elements of our syndicate loan book, but here too, we have been managing our risk prudently and increasing our hedges.

In our UK credit card portfolio, our balances remain some 40% below pre-pandemic levels. And while our US credit card portfolio has grown, credit quality remains very strong and customers continue to repay balances at near record levels.

That said, although we feel we are carefully positioned, we remain alert to signs of stress.

Our UK debit and credit card spending data give us early insights into how consumers are adjusting to prevailing trends. So far, we have not seen emerging signs of stress, although our September data showed a slight fall in consumer confidence.

People are being prudent with a reduction in non-essential spending, such as clothing, as they adjust their household expenditure for large increases in utilities bills.

We are drawing on this insight as well as our data – and listening to our customers – to understand how best we can support them. We have put in place a range of options to support individuals and businesses who bank with us.

This ranges from providing basic information such as mortgage renewal dates or how to build a household budget, through to helping those customers with more complex needs.

Today, we have over 8,000 colleagues available to engage with our customers in the UK and to discuss their finances. We know the demand for this customer support is growing, and we aim to hire nearly 1,000 more people in the coming weeks to boost that capacity.

#### Over-issuance of Securities

Let me now address the regrettable matter of the over-issuance of securities under our US shelf registration statements. We have resolved the matter with the SEC, and the total financial impact was broadly in line with what we disclosed at the second quarter.

I've said it before and I'll say it again; this issue was entirely avoidable and we are taking action to prevent this kind of failure from recurring.

The external counsel-led review is now complete and it reinforced the findings of our own extensive internal reviews.

We are already using these findings to improve specific controls across the bank, and to reinforce more broadly a strong controls culture.

I continue to be clear with all my colleagues that we have no higher priority than ensuring that our operations and our risk and controls processes are robust and effective at all times.

#### Climate update

Before I conclude, I want to give you a brief update on one of our strategic priorities, which is capturing opportunities from the transition to a low-carbon economy.

Governments continue to play a critical role in this transition. And considering the Inflation Reduction Act in the US and other business factors, in our year-end climate update we expect to bring forward the phase-out date for financing thermal coal power in the US from 2035 to 2030, in line with our approach in the UK and in the EU.

And demonstrating Barclays' leadership in the energy transition, we were very honoured and pleased to act as sole M&A adviser to Con Edison, based in New York, on the announced \$6.8bn sale of their clean energy business to RWE, based in Germany, earlier this month – this was the largest ever sale of renewable assets globally.

#### Conclusion

So, in conclusion, Barclays has had a strong third quarter of financial performance, building on our performance in the first half of the year.

This gives us a solid platform as we continue to target a statutory Return on Tangible Equity above 10% for 2022.

Our capital position is robust with a CET1 ratio of 13.8%, which is comfortably within our target range of 13-14%.

Our announced total capital return for the last twelve months, comprising both dividends and buybacks, is a yield of about 10.5% on the stock at current share price levels.

As I have said consistently, returning excess capital to shareholders remains one of our priorities.

And while I am pleased with the results, I am very conscious that we live in unusually uncertain times.

This drives our conservative approach to managing our balance sheet and provision levels, and our careful stance towards the expected deterioration in the global economy.

With that, thank you very much and let me turn it over to Anna.

#### **Slide 4 - Anna Cross, Barclays Group Finance Director**

Thank you Venkat, and good morning everyone.

### **Slide 5 – Group highlights: PBT up 6% with strong income growth**

Q3 was another quarter of delivery across our businesses, contributing to a year-to-date statutory RoTE of 10.9%, despite elevated litigation and conduct costs.

We delivered a RoTE of 12.5% for the quarter, PBT was up 6% year-on-year, and EPS was 9.4 pence. The CET1 ratio ended the quarter at 13.8%, and we remain highly liquid and well-funded, with a Liquidity Coverage Ratio of 151% and a Loan-to-Deposit Ratio of 72%.

As Venkat mentioned, we reached resolution with the SEC on the over-issuance.

As expected, the net profit effect of the over-issuance in the quarter was immaterial. However, there were offsetting effects on income and costs, and there's a slide giving the details in the appendix.

I'm going to exclude those effects in my commentary on the cost and income trends.

As in recent quarters, this robust performance is being driven by broad-based income momentum. Income was up 17%, while total costs were up by 18%.

However, operating costs, which exclude L&C, were up 14%, reflecting our focus on positive jaws. Both income and cost numbers are of course affected by the stronger US Dollar.

Impairment was £381m, up from £120m last year, and I'll say more about provisioning and our coverage levels shortly, but I'm going to start with income momentum.

### **Slide 6 – Income: Growth across all three operating businesses**

All three operating businesses delivered income growth.

In the investment bank, whilst the market environment for primary issuance remains challenging, that same environment is driving high levels of client activity across both financing and trading in the Markets businesses. So in the CIB, income grew 5% against a strong comparator, with Markets up 22% in US Dollar, more than offsetting the reduction in Banking.

The stand out in Markets is again FICC, up 63% in US Dollar.

Clearly the volatility across global markets provides a tailwind to this business as we help clients manage their risk. However, FICC comprises both intermediation and the more stable financing revenues.

Fixed income financing balances are up over 30% year-on-year and margins have widened, as rates have risen globally.

The trends give us confidence in a more sustainable base to FICC income, if volatility subsides.

Equities revenues were down 21% in dollars. Whilst derivatives were weaker, the year-on-year growth in our equity financing income provides a good base for sustainability.

Overall our Q3 share of wallet in Markets has increased by over 100bps year-on-year, compared to peers who have reported so far.

Investment banking fees were down 54% in US Dollar broadly in line with the reduction in the industry fee pool. However, the deal pipeline is strong.

The Corporate and Consumer businesses are well positioned for the rising rate environment, further boosted by transactional growth, and indeed nominal economic activity.

Although Corporate income overall was down 17%, the strong growth in Transaction Banking significantly offset the Corporate Lending income expense.

Income in CC&P increased 54%, reflecting strong growth across all three constituent businesses, and including the effect of the stronger US Dollar. In international cards, income was up 68%.

In contrast to the UK, we grew average balances strongly in the US, by around 30%, or \$6bn year-on-year, both organically and with the \$3.3bn Gap book.

In Payments, income grew 15%, and the Private Bank achieved 44% income growth, with the continued build in client assets and liabilities, up 14% to £138bn.

Barclays UK grew income by 17%, notably in personal banking where earnings on deposits in the rising rate environment more than offset very competitive mortgage margins.

Before I talk about interest rates, it is worth noting that our franchise is a global one, with a little over 40% of income in US Dollar.

Clearly this has an FX translation impact, but more importantly demonstrates our exposure to the US economy and capital markets.

Moving onto the effect of interest rates.

### Slide 7 – Sensitivity to interest rates

We have maintained a consistent hedge strategy for a number of years, the aim of which is to smooth the impact of interest rate changes on Net Interest Income. Each month, we currently roll £4-5bn of the hedge, mainly into 3 to 5 year rates.

The consequence of this is that Barclays has sensitivity not just to base rates, but also to the yield curve.

The left hand chart on this slide illustrates this for a 25bps parallel shift in the curve.

In year one, the majority of the sensitivity comes from product decisions around the pass through of increased base rates to customers.

But thereafter, with the cumulative effect of the hedge rolling into higher rates, the hedge impact becomes more significant and reaches around two-thirds of the £500m increase by year 3.

But of course this is just illustrative, and is not a prediction of what will happen with multiple rate rises. On the right hand chart, we have shown the actual impacts in recent quarters.

Given the recent moves in the yield curve, we were locking in an average 5-year swap rate of 3.05% for example in Q3, pulling the average yield on the hedge up to 93bps.

We have around £50bn maturing in 2023. Although we don't know exactly where swap rates will go, the likely uplift on the current hedge yield is clear, even if the rate cycle is shorter or shallower than current expectations, and of course that is locked in with each passing month.

Looking now at costs.

### Slide 8 – Costs: FY22 outlook of c.£16.7bn; continuing focus on positive jaws

The Q3 figure was £3.6bn, but this is net of a reduction in over-issuance costs of £0.5bn. Excluding that, costs would have been £4.1bn, up from last year's equivalent of £3.5bn.

This increase was partly attributable to the other Litigation and Conduct charges of £164m.

Operating costs, which exclude L&C, increased 14%, against income growth of 17%.

This increase of £0.5bn included FX movements and inflation, plus investment spend focused on our three strategic priorities.

Around 30% of our costs are in US Dollar so the 14% change in the US Dollar rate year-on-year has a significant translation effect.

The currency effects have been more pronounced quarter-on-quarter, with a 6% strengthening in the US Dollar.

Assuming an average dollar rate of \$1.12 for Q4, we expect total operating expenses for 2022 to be in line with our previous guidance at around £16.7bn, with the tailwind from the net L&C credit of £0.3bn in Q3 being broadly offset by the stronger Dollar and other cost inflation.

I'm not going to give absolute cost guidance for 2023 at this stage, but we will continue to manage the trade-off between cost efficiencies and investments.

Of course a strong Dollar will affect the Sterling cost figure, but with over 40% of our income in US Dollar, this is positive for our cost: income ratio.

We manage our statutory costs, which include litigation & conduct charges, and are very focused on generating positive jaws on a statutory basis.

Moving on to impairment.

### **Slide 9 – Balance sheet fortified for economic uncertainty**

The current macro-economic outlook informs our approach to provisioning.

But before I look at how this affects impairment, I want to summarise briefly the evolution of key portfolios in recent years.

The BUK mortgage book has grown by 13% since December 2019, but the average Loan-to-Value has declined, and only 2.3% of the book has an LTV over 85%.

Our UK cards book has reduced by around 40% over that period. We continue to see high levels of repayment across the credit spectrum and arrears rates remain stable at low levels.

By choice, we have a different dynamic in US cards. Whilst repayment rates have also been high, we are growing balances including through the launch of the Gap partnership. However,



the quality of the book as measured by average FICO scores has improved, and arrears rates are still below the pre-pandemic level.

Wholesale balances have increased recently, but the majority of the growth has been in debt securities, collateralised lending to financial institutions and lower risk areas of corporate lending. In addition, we have increased our first loss credit protection over the Corporate loan book, thereby reducing our exposure to loan losses. 35% of this book is now covered by some form of protection, up from 26% pre-pandemic.

Across our portfolios, we feel confident that we are well positioned.

### **Slide 10 – Impairment: Trend to through-the-cycle rate; provisioned for downside**

As you can see on the next slide, our total impairment allowance was £6.4bn, an increase in the quarter from £6.0bn, and this includes £0.7bn of post-model adjustments, or PMAs, for economic uncertainty.

The forecast macroeconomic variables, or MEVs, we have used at Q3 for modelled impairment are shown in the appendix.

These show some deterioration compared to Q2, for example modelling baseline UK unemployment of 4.4% in 2023, up from 4.1, and US unemployment of 4.0%, up from 3.5.

Applying these MEVs to the Q3 balance sheet had an effect of around £300m, but we created the PMA for economic uncertainty to capture this type of deterioration.

So in the quarter, we have released around £300m of the PMA balance.

Therefore, the modelled allowance plus the economic uncertainty PMA is roughly flat quarter-on-quarter at £5.2bn and covers the further modelled increase we would see, if we were to use our Downside 1 scenario.

We still don't see significant signs of deterioration in credit metrics.

Although coverage ratios overall are slightly down on pre-pandemic, we have increased coverage for Stage 1 and Stage 2 credit cards, as you can see in the appendix slides.

The chart on the right shows the overall loan loss rate over recent years. Ignoring the volatility during the pandemic, you can see that it has been around 50-60bps. Although this is sensitive

to the portfolio mix, we think this is a reasonable range to be considering for our through-the-cycle loan loss rate.

In Q3 this was 36bps, and the charge was £381m, and we expect this to rise modestly over coming quarters as we grow.

This is obviously subject to potential further deterioration in the macro-economic outlook beyond that which could be offset by the uncertainty PMA balance of £0.7bn.

A quick summary now on our results by business.

### **Slide 11 – CIB: Record Q3 FICC, offsetting subdued Investment Banking Fees**

In CIB, income grew by 5% against a strong comparator.

I focused on the key drivers earlier, but wanted to go into a bit more detail here on the corporate income.

Transaction banking was up 57% reflecting strong NII growth, and we would expect further growth in Q4.

The Corporate Lending income expense reflected both fair value losses on leverage finance lending of c.£190m net of mark to market gains on related hedges, and also higher costs of hedging and credit protection.

The underlying corporate lending income remained stable.

Operating costs, which exclude L&C, increased by 17%, reflecting the 14% appreciation in the US Dollar and investment in talent, systems and technology to support income growth initiatives, plus the impact of inflation.

The cost: income ratio was 62%, excluding the effect of the over-issuance.

Overall, the CIB generated a statutory RoTE for the quarter of 11.9%.

We're pleased with the sustainability of the business through the pandemic and current geo-political disruptions. The franchise is developing well, and over half of the income is dollar-based, reflecting the strength of our position in the largest global capital market.

Moving onto CC&P.

### Slide 12 – CC&P: Strong income growth across all businesses

Income increased 54%, reflecting growth across International Cards, Payments and the Private Bank, as I mentioned earlier.

Total costs were £835m, which included £102m of litigation and conduct, mainly in respect of our review of legacy loan portfolios.

Excluding this, the increase in operating costs was 30%, principally investment in the growth of partner brands in US cards and the dollar strength, but still delivering positive jaws.

The impairment charge was £249m, compared to £110m last year. This reflected growth in US card balances back to pre-pandemic levels, with some normalisation of economic activity.

As balances grow, we do expect some stage migration, but risk metrics remain below pre-pandemic levels.

The RoTE was 9.5%, despite the L&C charge.

Turning now to BUK.

### Slide 13 – Barclays UK: Higher income supported by rising rates

Income grew 17% while costs were up 2%, delivering strong positive jaws, and reducing the cost: income ratio by eight percentage points to 56%.

The NIM for the quarter was 301bps, up 30bps on Q2, as we saw benefits from rate rises, and we've shown a bridge on this slide analysing that.

We're continuing to guide for the full year to a range of 280 to 290 bps, and expect to be in the upper part of that range.

The cost saves that we've flagged previously provide significant offset to cost inflation, and we are keeping tight control over credit risk.

There's a slide in the appendix on the Head Office result.

Turning now to capital.

#### Slide 14 – Capital: 13.8% CET1 ratio within 13-14% target range

The CET1 ratio ended the quarter at 13.8%, an increase from 13.6% at the half year, and comfortably within our target range.

Our capital generation from profits was strong, contributing 43bps.

We've completed the half-year buyback, returning capital to shareholders and further reducing the share count to 15.9bn, that's down a billion in the last 12 months. Combined with the dividend paid and accrued this was a return to shareholders of 22bps.

Over time, increases in interest rates are a tailwind to profitability, but the effect on reserves from market movements caused a headwind of 12bps in the quarter, principally through the fair value effect on bond holdings.

The completion of the rescission offer and termination of related hedges released RWAs, increasing the ratio by 17bps.

FX had little net effect, given our policy of hedging the ratio, with an increase in RWAs but also a positive effect on the currency translation reserve in the numerator.

Our MDA hurdle is 10.9%, so we have comfortable headroom.

We remain confident in our organic capital generation and our target range remains 13-14%.

A quick comment on the move in equity. TNAV decreased 11p in the quarter to 286p per share, reflecting the effect of increased interest rates, partially offset by earnings and the benefit of the stronger dollar on reserves.

Finally, on leverage, our spot leverage ratio was 5.0%, and the average leverage ratio was 4.8%.

#### Slide 15 – Targets and performance

So, to summarise on targets and outlook.

We reported statutory earnings of 9.4p per share for Q3, and generated a 12.5% RoTE, against our target of over 10%.

We continue to target a cost: income ratio of below 60%, and our capital ratio remains strong at 13.8%.

### Slide 16 - Outlook

We have confidence in the continued revenue momentum across all of our businesses.

We continue to focus on the cost trajectory given inflationary pressures, and have maintained our cost guidance for the year of £16.7bn.

We are well provisioned in readiness for potential deterioration in the macroeconomic environment, but expect a modest increase in quarterly impairment charges over coming quarters, as we grow.

Overall the business performance is robust and we remain focused on delivering our target of double-digit RoTE this year, and on a sustainable basis going forward.

We are confident of being able to invest for future growth and delivering attractive capital returns to shareholders.

Thank you, and we will now take your questions, and as usual I would ask that you limit yourself to two per person, so we get a chance to get around to everyone.

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- 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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Barclays' management believes that the non-IFRS performance measures included in this document provide valuable information to the readers of the financial statements as they enable the reader to identify a more consistent basis for comparing the businesses' performance between financial periods and provide more detail concerning the elements of performance which the managers of these businesses are most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by Barclays' management. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. Non-IFRS performance measures are defined and reconciliations are available on our results announcement for the period ended 30 September 2022.