Barclays PLC H1 2016 Results

29th July 2016

Fixed Income Investor Call

Tushar Morzaria, Barclays Group Finance Director

Dan Hodge, Barclays Group Treasurer

Slide 2: Tushar introduction

Good afternoon everyone and welcome to our Half Year 2016 Results, Fixed Income Call.

I'm joined today by Dan Hodge, our Group Treasurer and Steven Penketh, our Group Head of Structural Reform.

Let me start with slide 3.

Slide 3: Transatlantic consumer, corporate and investment bank

This morning, Jes Staley, our Group Chief Executive Officer, reiterated our commitment to the strategy we laid out on March 1st positioning Barclays as a transatlantic, consumer, corporate and investment bank. Jes also noted the continued progress we made in executing this strategy during the quarter. I will briefly recap the key points:

Firstly, our core businesses continue to perform strongly, generating an underlying Return on Tangible Equity of 11% in the quarter.

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Secondly, progress on the run down of non-core continued steadily as we exited businesses and achieved reductions in derivatives and securities and loans.

As you know, driving the continued strong returns of our core businesses whilst closing non-core, remain key priorities for the Group.

We also initiated the sell-down of our holding in Barclays Africa and made further significant progress on our structural reform plans, notably standing up the US Intermediate Holding Company.

We maintain our focus on cost reduction and we are on track to meet our £12.8 billion 2016 core cost target, subject to FX.

Going forward we expect to significantly reduce the drag from non-core and we are now guiding to non-core costs of between £400 and £500m in 2017, excluding notable items, and with significantly improved negative income. We remain on track to close this unit by the end of 2017 with around £20 billion of RWAs.

Overall, we continue to measure our success against the three financial targets we set out for the Group in March – targeting the convergence of Group RoTE with Core RoTE, driving our cost to income ratio below 60% and managing our end-state capital to a ratio of 100 to 150 basis points above regulatory levels.

Turning to slide 4, let's look at Q2 results in more detail.

Slide 4: Q2 financial highlights

Barclays UK delivered an underlying RoTE of 18.4%. Underlying income was broadly stable despite the European interchange fee regulations coming into full effect and margins remained solid at 356 basis points.

Barclays Corporate and International delivered an underlying RoTE of 11.9%.

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The Corporate and Investment Bank was resilient, delivering an underlying RoTE of 9.5%, an increase on the 7.3% return reported in Q1, although we have more to achieve on costs to drive further improvements.

Consumer, Cards and Payments had another outstanding quarter achieving an underlying RoTE of 26.3% driven by US and German cards growth and the benefits of a stronger US Dollar and Euro. Whilst such outstanding performance may not prove typical, we remain excited about opportunities to continue growing the payments business and building on our innovative digital offering to corporates.

We also made further progress improving our CET1 ratio to a robust 11.6% supported by Q2 profit generation in the core of £1.5 billion.

RWAs in non-core reduced by £4 billion in the quarter to £47 billion.

We announced a number of business sales including Southern European cards, Asia Wealth and exclusive discussions on the French business and expected closures in H2 will drive further RWA reductions.

The Q2 loss before tax in non-core approached £1.1 billion, including a £372 million impairment on assets related to the French businesses which are held for sale and the £182 million one-off charge resulting from the restructuring of the so-called "LOBO" loans, representing around half of the ESHLA portfolio. The ESHLA restructuring was however, net capital accretive and should result in significantly lower fair value volatility from ESHLA in the future whilst also significantly reducing our Level 3 assets.

We have a strong pipeline of announced disposals and remain confident in our trajectory and are focussed on reducing costs and preserving capital as we proceed.

Turning to slide 5 and before I hand over to Dan, just a few words on the strong position of the Group.

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Slide 5: Resilience from prudent risk management and diversification

As we enter a period of increased macro uncertainty and the consequences of the referendum unfold, we operate from a position of considerable strength.

We benefit from the inherent diversification and earning power of our core businesses – from our mix of customers and clients, the nature of the products we offer, as well as the countries in which we operate.

And whilst there are a number of questions outstanding around passporting, we are confident that if required, solutions can be found, as I discussed this morning.

We have demonstrated a track record of prudent risk management and appetite since well before the 2008 financial crisis. This conservatism served us well during that period, notably through our limited exposure to UK commercial real estate and low LTVs on mortgage lending.

We believe that the quality of our assets positions us well should economic stresses materialise. As you can see, we had the lowest drawdown among UK listed peers in both the 2014 and 2015 Bank of England stress tests, post management actions.

We feel confident in our strategy, our ability to execute and we are optimistic about the opportunities, which lie ahead.

With that, …Dan, over to you.

Slide 6: DH Holding slide

Thank you Tushar

Barclays made further progress on its balance sheet in Q2 and we ended the quarter in a robust position with strong and stable capital and liquidity ratios.

This was facilitated by the extensive plans we made, and the actions we took, to prepare for a possible Brexit vote.

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Whilst the immediate equity and credit market reaction to Brexit was meaningful, markets have since improved significantly, supported by the timely response of the Bank of England, and the Financial Policy Committee.

Our day-to-day treasury operations continued uninterrupted, as clients and customers undertook their usual business across retail, mortgage, credit card, lending and wholesale activities.

Whilst the medium-term impacts of Brexit are less clear, the immediate impact has so far been very modest for Barclays.

We estimate that market reactions from Brexit resulted in a negligible impact on our Q2 CET1 ratio. The geographical composition of our balance sheet, as well as our existing Euro and US Dollar currency hedging strategy created an effective CET1 ratio hedge, mitigating the £3 billion quarterly RWA increase, to £366 billion at 30 June.

Immediate funding and liquidity impacts were also negligible, with no observable change in behaviour of our short-term wholesale market investors or our retail and corporate depositor base.

Our capital, funding and liquidity position has continued to remain strong through July.

Whilst the Brexit vote increases the likelihood of a lower for longer rate environment, we maintain structural hedges against various product balances, notably non-maturity customer deposits, and equity balances, to protect net interest income against falling rates.

Should a 25 basis point interest rate cut occur in August, as widely anticipated, we would expect to be able to broadly offset that cut through further liability re-pricing, meaning that the full year NIM for Barclays UK around Q2 levels looks

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appropriate. However, further base rate cuts would likely put modest downward pressure on NIM.

Moving then to the solid progress we have made on our balance sheet, HoldCo transition and structural reform during the quarter, starting with capital and leverage.

Slide 7: Strong CET1 and leverage ratio progression

Slide 7 shows that our Q2 CET1 ratio improved by 30 basis points over the quarter to 11.6%, as profit generation by businesses and the sell-down of part of our share in Barclays Africa more than offset conduct and litigation charges in the quarter.

Our Leverage ratio decreased by 10 basis points on Q1 to 4.2%, due to an increase in leverage exposure offsetting the £1.6 billion increase in Tier 1 capital. The leverage exposure increase reflects a number of factors including an increase in the cash component of our liquidity pool for the referendum, as well as FX and other market movements.

We expect to grow the leverage ratio over time.

Turning now to slide 8 and our future CET1 ratio expectation.

Slide 8: Managing evolving future minimum CET1 levels

Our approach to capital planning remains unchanged.

We continue to manage our CET1 ratio as a function of expected future minimum requirements and CRD IV buffers plus a prudent management buffer, currently sized at 100 to 150 basis points, rather than a fixed target.

Due to the Financial Policy Committee decision to reverse the planned introduction of the Countercyclical Buffer, at least until June 2017, we reduced our expected minimum levels by approximately 25 basis points in 2017 and approximately 50 basis points in both 2018 and 2019, compared with Q1 expectations.

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The fully phased-in regulatory CET1 requirements as we know them today, plus our expected management buffer, would currently place us around 12.5% in end-state.

We continue to be optimistic that our G-SIB buffer will fall to 1.5% given our further deleveraging and simplification since December 2014, which was the date used to calibrate our current 2% buffer. However, as this is still uncertain, we have continued to illustrate the end-state buffer at 2%.

In terms of future RWAs, we would note that the impacts of Basel RWA recalibration and their timing remain unclear and we continue to engage actively with our regulators on numerous quantitative impact studies.

Before any Basel RWA recalibration, combining regulatory de-consolidation of Barclays Africa, further run-down of non-core toward our target and some modest growth in select core businesses would imply RWAs in the low 300 billions. This is very supportive of our ability to build our CET1 ratio towards our end-state expectation.

We also continue to take into account stress testing by sizing our management buffer with the objective of clearly passing both internal, and the relevant Bank of England, hurdle rates. Based on the drawdowns in the 2014 and 2015 stress tests, the approximate 4% buffer shown on this slide has proved more than adequate. Importantly, we expect that the resilience of the group under stress should improve further as we continue to run-down Barclays non-core and resolve outstanding conduct and litigation issues.

Before addressing MREL and TLAC in the next section, let me briefly update you on our current total capital stack on slide 9 – on both a PRA transitional and fully-loaded basis.

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Slide 9: Evolving CRD IV capital structure transitioning stack to HoldCo over time

Throughout 2016 we have continued to execute our transition towards a HoldCo capital and funding model.

In Q2, our outstanding consolidated total capital ratio increased by 50 basis points to 18.7% on a transitional basis. The increase was 40 basis points to 17.6% on a fully-loaded basis. These increases were driven mainly by CET1 accretion.

In terms of MREL/TLAC stack composition, we continue to expect to build approximately 80 basis points of additional AT1 to reach 2.2% in end-state through measured issuance over time.

For Tier 2, we remain incentivised to hold at least 3% of RWAs.

We maintain our view that the appropriate balance between Tier 2 and senior debt in our future stack will be informed by TLAC and MREL rules as well as investor appetite and relative pricing.

Transitioning to a HoldCo model for the purposes of satisfying our MREL/TLAC requirements is our primary focus and we have sufficient time to achieve this as we currently expect OpCo capital instruments to qualify as MREL and TLAC until 1 January 2022. In the meantime, most of our legacy OpCo capital instruments remain eligible CRD IV capital, during, and to the extent outstanding, after, the grandfathering period.

Turning now to the evolving MREL/TLAC requirements on slide 10.

Slide 10: Illustrative MREL/TLAC requirements

We currently expect the MREL requirements as at 1 January 2022 to be our binding constraint given that OpCo legacy capital is not expected to qualify from that time

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Excluding OpCo capital from our Q2 2016 position would reduce the "spot" ratio to around 17%.

During H1 we issued 5.7 billion sterling equivalent in wholesale markets across public and private, senior and capital transactions, including our 1.25 billion US Dollar Tier 2 in early May.

Of the H1 total, £600 million has been raised in private transactions, and we closed a further private transaction in July as fixed income markets stabilised quickly.

We have also completed a number of liability and capital management exercises this year across a range of securities and currencies, totalling 6.1 billion sterling equivalent.

As future MREL requirements remain uncertain, we continue to illustrate on this slide the aggregate HoldCo AT1, T2 and senior issuance needed over the coming 5.5 years to solve for a requirement of 24%. This is derived from the Pillar 1 TLAC minimum requirement of 18%, plus CRD IV buffers of 4.5% and an illustrative 1.5% internal management buffer. Based on spot RWAs of £366 billion this issuance would equate to £33 billion in aggregate, or around £6 billion of issuance per annum over the coming 5.5 years.

Whilst in practice we recognise that MREL requirements may be higher than 24%, we anticipate lower RWAs, as described earlier, through the regulatory deconsolidation of Barclays Africa and further run-down of non-core. We also intend to continue accreting CET1 capital. These factors will help to mitigate against the clear risk of higher MREL ratio requirements.

This illustration does not represent our actual issuance plan or guidance and given uncertainty around final MREL requirements, we will continue to be an active issuer, with the intention of undertaking further issuance this year, subject to market conditions and investor appetite.

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In terms of the profit impact of our migration to HoldCo funding, we do not expect our future funding needs to translate into materially higher cost of funding for the group at current spreads, taking into account the maturity profile and roll-off of expensive legacy debt, most of which was issued shortly after the financial crisis.

Moving now to our strong liquidity and funding position on slide 11.

Slide 11: Maintaining a robust liquidity position and well diversified funding profile

We continue to maintain a very robust and well balanced liquidity and funding profile supported by our extensive preparations for Brexit and the very moderate impact thereafter.

At Q2, our liquidity pool stood at £149 billion and the Pillar 1 LCR at 124%, a surplus of £29 billion to 100%.

The NSFR remained stable at 106%, above future minimum requirements well ahead of implementation timelines.

Our group wholesale funding increased by £12 billion from year end to £154 billion at Q2. This was driven by an increase in short term funding as we prudently increased our liquidity position ahead of the referendum which more than offset the modest reduction in longer term funding.

Turning now to slide 12 and structural reform.

Slide 12: Progress on Group legal structure

We have continued to make good progress on the execution of our structural reform plans in Q2.

On 1st July, our US IHC became operational, one of the first major deliverables of our structural reform programme. This company holds, under one legal entity, Barclays' existing US subsidiaries, including Barclays Bank Delaware - our

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payments and credit card bank supporting Barclaycard, and Barclays Capital Inc. - our US broker dealer supporting our Markets business.

As a bank holding company, the US IHC is subject to the same consolidated capital, leverage, liquidity and Federal Reserve supervisory requirements as domestic US bank holding companies.

While we are currently not permitted to disclose details on its financials, we are compliant with all minimum requirements and continue to prepare extensively for our first private CCAR in 2017, and first public CCAR in 2018.

As you can imagine, the establishment of our US IHC was a large and complex project that mobilised the efforts of over 1000 Barclays employees over a 2 year time frame. It is worth highlighting this point, as it evidences what we consider to be a key strength of Barclays - execution. Effecting the necessary changes to our US business with minimum disruption to customers and counterparts was extremely important to us – and we are pleased with the delivery.

Our preparation work to establish Barclays UK continues to progress well. We submitted a draft banking licence in June and are in active follow-up with our regulators in anticipation of securing the license in good time for the legal separation of Barclays UK from Barclays Bank PLC as expected in 2018.

Stakeholders, including our fixed income investors, should take comfort from the various checks and balances that form part of the ring-fencing regime.

Critical to this regime is the role of a court-approved, independent expert in considering the impact of our plans on all stakeholders.

The independent expert is required to attest that stakeholders are not impacted beyond what is reasonably necessary to achieve the purposes of ring-fencing. In addition the respective regulators, both the PRA and FCA, as well as the court, must be satisfied that this is indeed the case before sanctioning the separation.

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Another cornerstone of the UK structural reform agenda is to ensure operational continuity of a bank's critical services in times of stress. This is ultimately designed to preserve enterprise value if required and, as such, should provide universal benefit.

As Barclays has many shared services across Barclays UK and Barclays Corporate and International, our expectation is that the majority of our critical services will be provided to Barclays UK and BC&I via an enterprise-wide service company construct. This construct will deliver controlled and consistent services with senior management accountability that should enable us to deliver operational synergies.

Other than the delivery of streamlined services and consequential operational synergies, we view the establishment of the service company construct as largely stakeholder agnostic. In order to ensure appropriate testing and operational readiness, we are likely to establish it beneath Barclays PLC, and ahead of the establishment of Barclays UK.

We recognise that a number of market participants are keen to understand the prudential requirements of the future legal entities, how we are currently positioned against these future requirements and where we expect to be positioned upon implementation.

Whilst these requirements are not yet finalised, we would expect to communicate them in a timely way and to the extent permitted by regulators.

We are also aware that as we approach legal separation, certain investors and creditors will be keen to understand the expected rating profile of Barclays UK and Barclays Bank PLC after structural reform.

Our objective is to maintain solid investment grade ratings. Further, we intend to create as much stability in the ratings of Barclays PLC and Barclays Bank PLC as we can - both before and after structural reform. Over time we aim to further

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strengthen our credit proposition through the successful delivery of our strategy and continued issuance from our HoldCo.

Finally, on structural reform, as the point of diversification of two strong underlying banking entities that deliver greater transparency and accountability, Barclays PLC – the parent entity – should remain an attractive proposition for our fixed income investors.

To conclude then on slide 13.

Slide 13: Focused on delivery

In Q2 we continued to deliver on our strategy achieving strong underlying returns in our core businesses and further reducing non-core.

We made solid progress on our balance sheet, simplifying our liability stack and continuing our transition towards a HoldCo model, accreting the CET1 ratio and maintaining robust liquidity and funding diversification.

We maintained a strong cost discipline whilst continuing to focus on driving group returns to those of the core.

We made further progress on structural reform, standing up our US IHC, and further progressing our plans for ring-fencing in the UK.

Whilst Brexit brings increased macro uncertainty, we remain committed to the strategy we have set out and confident in our ability to deliver.

Tushar, with that, I'd like to hand back to you.

Slide14: Q&A holding page

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

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As a reminder, I am joined here today by Dan Hodge, Group Treasurer, and Steven Penketh, Group Head of Structural Reform.

Please go ahead.

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