Barclays PLC FY 2020 Results

18 February 2021

Fixed Income Results call Q&A transcript (amended in places to improve readability)

Lee Street, Citigroup

I've got one broad [question] and three technical ones, shall we say. Firstly, the broad one, stage 2 loan classification. You've seen quite a big increase last year in stage 2 loans, and now we start to see that decline on the other side. My question is how are we supposed to interpret stage 2 loan classification? Is it actually something that does really represent a genuine increase in credit risk, or is it just really the outcome of a model that you're effectively just a taker of, and we probably shouldn't be reading too much into it? That's the broad one.

And then, a couple of quick technical ones. You note in the slide Barclays Bank Tier 2 may qualify for Tier 2 after 2022. Do you think you'll take an increase in your MREL requirements to offset that, is that your expectation?

Secondly, on building towards your 3.2% target Tier 2 level, you're currently around 2.5% of the HoldCo, am I thinking this is implying about £2 billion worth of Tier 2 issuance in 2022?

And just finally, you mentioned the Libor consent solicitation you did as being an important first step, obviously there were a couple of securities in there where the consent didn't pass. Is there a second step for those, or will they just revert to, effectively, what the contractual terms and conditions say?

Tushar Morzaria, Group Finance Director

Staging with impairment is very much driven by models, particularly on the consumer side, where quite simply if there's a meaningful change in the probability of default for any particular credit, then either it goes into stage 2 immediately, if you originated something with a meaningful probability of default, or it's more likely the case, where it's from stage 1, it moves into stage 2.

So in that sense, it's more of a quantitative output than a credit officer going through, name by name, looking for a judgement. On the corporate side, for certainly large corporates, there's much more credit officer involvement. You'll notice that the build that we have in stage 2 impairment balances is actually mostly, overwhelmingly actually, for loans that aren't past due yet, so that's when it gets to the point where it's very much forward-looking, that these credits have exhibited a more riskier profile than they were previously, and under current accounting standards, we take an expected loss.

And as I said on this morning's call, the models are looking forward, expecting the risk of delinquencies to start to materialise, we're just not seeing that yet. It's remarkably benign, both on the consumer side and one the corporate side, very much a function, I guess, of government support schemes at the moment, which has been very helpful. But hopefully, that gives you a little bit more context.

Kathryn McLeland, Group Treasurer

You had three, what you called, technical additional questions. So the first one was how do we think about the amortising nature of the Tier 2, and is that reflected in our MREL issuance plans.

Certainly, I think it is a modest amount that we would have that would be in that category, and it would be reflected in terms of the £8 billion [issuance] target, which is the only guidance we've given for this year. As you heard, we said that it is likely to encompass regular senior issuance, AT1 and Tier 2. And as you rightly identified, what we have said is that we intend to increase the level of Tier 2.

That reflects upcoming calls that we may choose to exercise and redemptions from the OpCo and the HoldCo over the next few years, but I don't think we should be commenting on a particular quantum of Tier 2 supply for either this year or next year, just that it will likely be part of our £8 billion issuance plan for the year. And obviously, we'll be very thoughtful around accessing the market in terms of any potential refinancing activity that we may choose to do.

And so lastly, in terms of the consent solicitation around the 12 securities referencing Libor that we launched in November of last year, and concluded in December, as you said, we were successful in five, which means there are seven left. We were pleased to have done this, to have done quite a comprehensive liability management exercise that spanned both sterling and dollar securities, and we wanted to give investors a chance to exit from other Libor exposures.

So at this stage, we don't envisage doing anything else in relation to these securities, and as we said, we obviously are following all external market developments in this area, and everything that the working groups are doing. But no plans for us to follow up on what we concluded in December.

Robert Smalley, UBS

The enhanced disclosure that you're giving on capital is greatly appreciated. Two questions.

First, on slide 9, where you've got that green box on organic capital generation, in general, what do you think this number should be? What should the range be? How much organic capital should Barclays be generating on an annual basis? I ask because it's a real indicator of your ability to earn your way out of problems as they occur. So if you could give us some detail around that, that would be great.

My second question, a similar type of question on the MDA headroom, you refer to appropriate headroom going forward. How do you determine what's appropriate? Do you look at peers? Is there some other internally-generated number? The reason why I ask that is because that's often pointed to by investors as being thinner at Barclays than a lot of other peers.

Tushar Morzaria

In terms of organic capital generation, I won't give out a forecast or specific numbers. Suffice to say that we would expect to be very profitable. We were profitable in every quarter actually, in 2020, and guided to a meaningful improvement in profitability in 2021.

So you should take from there that we expect to be solidly profitable throughout the year. That of course is good capital as well. Against that, we've guided to some, if you like, technical headwinds, things which you can see in front of you.

I think even when you net all of that in as best as we can forecast, and allow some growth for the balance sheet, which we take as a positive, that we were able to originate new loans and grow our business, although it's somewhat a function of how strong the recovery is later on in the year, even after all of that, we would be expecting to generate reasonable amounts of excess capital that we would like to then think about the most appropriate way to distribute that back to our equity holders and so forth.

So, Robert, it probably doesn't answer your question with a precise number, but suffice to say that at Barclays we feel very confident that we'll be generating, after everything in the round, profitability tailwinds, reinvesting back into balance sheet growth, meaningful amounts of excess capital. And that allows us to run the bank safely as well as for the benefit of its debt and equity holders.

Kathryn McLeland

In relation to the MDA and how we think about what is an appropriate distance that we'd like to run the capital ratio versus MDA, obviously today we came out with a new capital target, 13% to 14%, and clearly at the end of the year, as you saw, I think we had an excess above MDA of around £12 billion of capital, so it was about a 400 basis point buffer to MDA.

And so the new target that we've given out reflects a couple of things. It obviously will reflect the capital-generative capacity of the bank, as Tushar said, which we obviously demonstrated last year, but also the headwinds that we've communicated, that you also highlighted, that are coming, and potential movements in RWAs, Pillar 2A, and potentially also, at some stage, the reintroduction in the UK of the counter-cyclical buffer, which is very clearly a macro stress buffer, as we've seen in 2016, at the beginning of this year too.

So that would be in a position, were that to come in, when the bank would also be generating strong profits. So having followed the bank, as I know you have, for quite some time, you'll have seen where our targets have been historically, over many years, probably six or seven years in terms of how we've developed targets above MDA, a huge amount of thought, and we certainly have an internal framework that we use to think about distance to MDA, it's incredibly important to us, we do look at it closely.

Obviously, during the crisis of last year, we looked at the distance to MDA. We do consider peers as well, in terms of where they are. The 13% to 14% target today is very much in line with a lot of the peers that we have. So I would just give you, I guess, some guidance that we think that it does give you confidence of us remaining at a prudent buffer, above MDA, when we think about the headwinds and the tailwinds that we have, and that's reflected within the 13% to 14% target that we've given today.

Daniel David, Autonomous

Just a couple of questions on infection risk. You noted the March submission deadline to the PRA, can you provide any guidance of the regulator timeline after March? And you've previously commented that you could restructure internal AT1s to mitigate infection risk, just wondering if you have the approvals to restructure the internals? And also, if you were to restructure, would this be publicly disclosed, i.e. would we be aware of it?

And then, just stepping back and considering more broadly the situation, how do you weigh up the benefit of the positive market sentiment that would be generated from a legacy call versus the capital benefit, and specifically thinking about some of the smaller securities you've got outstanding?

And finally, just on Libor, I note in your previous answers, just thinking about sterling Libor and the FCA synthetic Libor approach, is this something that you'd consider using? And also, if you did, is there a timeline with which you think you'd be able to use synthetic Libor for, i.e. a year after the Libor deadline? Or is it indefinite?

Kathryn McLeland

In terms of your first question around infection risk, I think here the story is very similar, I'm afraid, Dan, to what you've heard from us before, which is we have quite a modest amount of securities that are now smaller than they were before, because of the $7.625% tender offer we did in December. So about £3.5 billion outstanding at the end of this year, and only £1.5 billion at the end of 2020.

And obviously, that is really quite small when you consider the £100 billion of MREL outstanding. So I do think we are in a good position when you think about the ability to assess all the impediments to resolution. As you know, these legacy securities are just one element that the Bank of England looks at.

So I think our position is pretty good. We've done a lot of work across all of the resolvability assessments that the Bank of England looks at. We obviously clearly know what the Bank of England is also looking at, in terms of their considerations around flexibility of payments, the level of subordination provisions, US or non-UK law.

At this stage, we are obviously submitting our response for the March 31 deadline, and there's no real guidance at the moment in terms of where things go in terms of getting feedback, and clearly any decisions that the Bank of England may take.

So I guess we obviously know the external timeline that's been in place for many, many years, and we'll just wait for feedback from the Bank of England on that.

So in terms of your second question, should there be any need to restructure or change the terms of internal securities, you would only potentially see them if there are securities issued in the operating company accounts. So that would be produced semi-annually.

And then on sterling synthetic Libor, it wasn't part of our consent solicitation in terms of the securities in December…

Daniel David

I guess what was noted in the UK is a helpful approach from the FCA extending, potentially, the life of Libor to avoid market disruption. And I guess what we're just thinking through is if you continued to use Libor in the synthetic approach, is there a deadline further down the line, where, say, the synthetic Libor needs to switched off? Or is it that sterling Libor can continue in perpetuity, given that there's a new approach? I'm thinking in relation to how the Europeans have tackled the problem.

Miray Muminoglu, Head of Term Funding

Yes. Good question, actually. Obviously, we are hearing the FCA comment on tough legacy. You would have picked up that Edwin Schooling Latter's speech in January referred to a consultation that will come up sometime in the Spring, around tough legacy, and we actually would expect to hear their thoughts as to how long synthetic Libor might be around. If I were to guess, probably longer than one year, but perhaps not into perpetuity. But we'll have to see how that plays out.

Kathryn McLeland

And, Dan, I think apologies, the question I know I didn't answer was just more a question around liability management in general, on some of the smaller securities. And I think, again, we'll constantly look at where there may be opportunities, like we did in December with the Tier 2 $7.625% CoCo, but certainly nothing imminent. But it's something that we obviously always do look at.

Neel Shah, Crédit Agricole

I've got two questions. Firstly, one asked a few times, in November, regarding the reference rate change. I think, Kathryn, you mentioned that five out of the 12 were changed. Was there a public announcement regarding that, or was there a reason why there wasn't one?

And regarding the remaining seven securities, can you explain what are the options available to yourselves, going forward, and discussions you're having with the PRA? That's question one.

And question two, regarding issuing further Tier 2 you've guided to creating 3.2%, is there any positive impact regarding that with the rating agencies, in terms of the way they look at your stack of bail-inable securities? Could there be any outlook changes there?

Miray Muminoglu

Obviously, the results of the consultation were announced, both around the ones that passed in the first meeting, as well as the ones that passed in the adjourned meeting in the middle of January. We have released the requisite RNSs at the time. We can certainly get them to you.

Of course, in terms of the securities actually becoming mid-swap Sonia-backed, we need first sterling Libor to be discontinued, and that event to happen for it to become effective, if you will. So if that's what you're referring to, that of course is still waiting for the FCA non-representative order cessation announcement. But the fact remains that investors consented to us making that change.

With regards to those seven that have not passed, I think it's important to underline that we feel very strongly about the nature of the exercise that we have proposed to investors. It was a fair and transparent restructuring exercise, with no value transfer from one side to the other. And importantly, I think it followed industry and regulatory guidelines.

At this stage, we don't think there is room or requirement for trying this again, or really changing anything around it. As Dan David asked earlier, if anything is sterling Libor-linked, I think we will have to look at whether it would count as tough legacy. If something is dollar, that is not under US law, a US legislation solution will not help us, so we're going to have to see what happens in terms of synthetic dollar Libor.

And finally, I would remind you that all of these securities have some form of fall-back, inadequate and old-style often reverts to either last fixing or first fixing, but there is something in there. We're going to have to watch developments in terms of where that ends up.

Kathryn McLeland

In terms of your question regarding any additional benefit that we might get in terms of Tier 2 issuance that we indicated in the call and in the Q&A with the rating agencies, obviously we do, for each of the agencies, look at their key metrics, LGF, ALAC and QJD.

And so, when we do have all the discussions with the ratings agencies, clearly issuance plans do reflect where we sit on each of these metrics and how we see them evolving. So I suppose they are reflected in the £8 billion number which, as I said, does include Tier 2, but I don't think it's a material driver for us in terms of issuing the Tier 2.

And obviously, in terms of ratings, we do spend a lot of time with the agencies. As we said, we do feel that the ratings for us are on a good trajectory. Certainly on a relative basis, we feel very good. And as you've heard, on both the equity call and the fixed income call, we do feel that we have demonstrated very good financial performance, given the diversification of the group, which obviously does deliver several credit positives. So it's an area that we are certainly spending a lot of time in, but in terms of Tier 2 issuance, there's not really a ratings driver behind it in any material size.

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