Barclays PLC FY 2024 Results

Fixed Income Conference Call Speech

Anna Cross, Group Finance Director

Daniel Fairclough, Group Treasurer

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1. Good afternoon, everyone, and welcome to the full year 2024 fixed income investor call. I'm joined today by Dan Fairclough, our Group Treasurer.

2. Let me begin with a brief overview of our financial performance.

Slide 3: We achieved our 2024 financial targets and are on the path to 2026 delivery

3. As Venkat and I stated this morning, we set out a three-year plan last February to deliver a better run, more strongly performing and higher returning Barclays.

4. We believe the plan is constructive for fixed income investors, and we appreciate your ongoing support.

5. We are encouraged by the progress so far and have delivered against our 2024 financial targets.

6. Return on Tangible Equity was 10.5%, in line with our target of greater than 10%.

7. We delivered against our NII guidance and our cost to income ratio was 62%, below our guidance of around 63% for the year.

8. We continued to manage our credit carefully, with a Group Loan Loss rate of 46bps, below the 50-60bps through the cycle guidance.

9. We remain well-capitalised, ending the year with a CET1 ratio of 13.6%, within our 13 to 14% target range.

10. And we are on track to achieve our 2026 Group targets, all of which remain unchanged.

11. In addition, we have provided guidance for 2025.

12. This includes a RoTE of around 11% and a progressive increase in our total payout, while maintaining a CET1 ratio of 13-14%.

13. The increase in RoTE will be supported by Group NII growth, to around £12.2 billion, including an increase in Barclays UK to c.£7.4 billion.

14. And we expect to improve the Group cost: income ratio to c.61%.

15. As debt investors, I appreciate credit quality is a key focus area, so I will cover this topic in more detail on the next slide.

Slide 4: FY24 LLR of 46bps; maintaining through the cycle guidance of 50-60bps

16. Credit quality has continued to develop as we expected.

17. Both the 2024 Group impairment charge of £2.0bn and the Barclays UK charge of £0.4bn included a c.£0.2bn day 1 charge for Tesco Bank, where accounting rules require balances to be brought onto our books at stage 1.

18. The UK credit picture remains benign with low and stable delinquencies in our consumer books, and wholesale loan loss rates below our through the cycle expectations.

19. The Barclays UK charge, including the Day 1 effects from Tesco, resulted in a Loan Loss Rate of 16bps for 2024.

20. We still expect the Barclays UK loan loss rate to track towards c.35bps over time, as we grow the balance sheet.

21. The US Consumer Bank charge of £1.3bn improved year on year, in line with expectations, and equated to a loan loss rate of 431bps.

22. Looking ahead, in 2025, we expect the loan loss rate in the US Consumer Bank to be similar to 2024.

23. This includes the lagged effect of higher delinquencies in the past 12-18 months and the anticipated day 1 effect of bringing the General Motors partnership on board in Q325.

24. I would also note that loan loss rates in this business tend to be seasonally higher in Q1, given holiday spend in Q4.

25. I'll now hand over to Dan for the balance sheet highlights.

Daniel Fairclough, Group Treasurer

Slide 6: FY24 highlights

26. Thanks Anna.

27. Our balance sheet continues to be strong, as evidenced by the metrics on slide 6.

28. Let me begin first with capital on slide 7.

Slide 7: CET1 ratio within the 13-14% target range

29. We ended the year with a CET1 ratio of 13.6%.

30. This included around 140bps of capital generation from profits, excluding the day 1 P&L benefit of the Tesco Bank acquisition.

31. We previously highlighted two inorganic transactions that would impact capital in the near term, both of which have now completed:

32. The first was the c.20bps of capital consumption from the acquisition of Tesco Bank in Q4.

33. The second is the c.10bps accretion from the sale of the German consumer finance business, which was completed last month and will benefit the CET1 ratio in Q125.

34. The £1bn share buyback we announced today will also lower the ratio by around 30bps in Q1.

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Slide 8: Guidance on regulatory driven RWA inflation

35. Looking ahead, we maintain our guidance for between £19 and £26bn of regulatory driven RWA inflation.

36. The UK regulator's decision to postpone the implementation of Basel 3.1 to January 2027 may, however, alter the mix and phasing of this change.

37. Adopting IRB in the US consumer bank is still expected to increase RWAs by c.£16bn.

38. Whilst the ending of the American Airlines partnership from 2026 has increased uncertainty around the size and mix of the portfolio at the time of implementation, this remains our best estimate for now.

39. In the meantime, there are a few changes in the regulatory landscape.

40. Prior to implementing IRB for US cards, our Pillar 2A requirement will increase by 0.1% from Q125.

41. We expect this Pillar 2A capital to be removed once the IRB model is implemented in 2026 or 2027 when the £16bn RWA increase is reflected in Pillar 1.

42. Consequently, our maximum distributable amount ratio, or "MDA" is expected to rise to 12.2% from Q125.

43. We had previously expected that this would reduce in January 2026 following the implementation of Basel 3.1 but this now will be delayed to January 2027.

44. Reflecting this, you should continue to expect us to operate towards the upper half of our 13 to 14% target CET1 range as we have been doing.

45. Naturally, our distribution expectations remain unchanged.

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Slide 9: Strong organic capital generation supporting our capital priorities

46. We have a clear hierarchy for capital allocation, in order of priority:

47. First, to hold a prudent level of capital, with an expectation we will continue to operate towards the upper half of our 13-14% CET1 target range, taking into account regulatory requirements.

48. Second, to distribute capital to shareholders.

49. And third, to invest selectively in our higher returning divisions, resulting in a more profitable RWA mix over time.

50. As we grow returns in line with our plan, we expect to generate around 170bps of capital during 2025 and more than 200bps in 2026.

51. Our strategy should promote greater capital resilience, supported by a more balanced business model and growth in more stable income streams.

Slide 10: Operating with a prudent buffer to each tier of capital requirements

52. Moving up the capital stack, on slide 10, we show our capital requirements as a proportion of RWAs, split out by Tier 1 and Total Capital as at year end 2024.

53. We continue to target a prudent buffer against each of these requirements.

54. Our Tier 1 ratio is 16.9%, with a healthy headroom above our 14.4% regulatory requirement.

55. Within this ratio, we had an AT1 component of 3.4%.

56. During 2024, we called £2.8bn of AT1 and issued £1.6bn. This net reduction of £1.2bn was consistent with our net negative AT1 issuance guidance last year.

57. Moving into 2025, our robust starting position will allow us to be thoughtful around issuance.

58. We are comfortable with our current levels of AT1 and expect issuance and redemptions to be balanced over time.

59. AT1 provides value in our capital stack given its contribution towards our Tier 1, Total Capital, MREL and Leverage requirements.

60. Moving onto Total Capital, the buffer over our regulatory minimum remains healthy at 200bps.

61. This was supported by two Tier 2 transactions, which included our inaugural Australian Dollar Tier 2 issuance in November.

62. The strength of our Tier 1 ratio also continues to contribute to this Total Capital position and as a result, our Tier 2 requirements are modest, largely replacing our existing call and amortisation profile.

Slide 11: MREL position well established

63. Turning now to slide 11, we issued a total of £15bn of MREL in 2024.

64. We have already been active in 2025, with a £750m Sterling Senior in January, and we expect to issue a further £13bn of MREL across AT1, T2 and Senior Unsecured, largely replacing our existing MREL roll off profile.

65. Whilst the majority of our issuance will continue to be focused on benchmark execution in US dollars, Euros and Sterling, we will seek diversification where it makes sense.

66. This can be achieved through different currency offerings, as demonstrated by our Japanese Yen, Australian Dollar and Singapore Dollar transactions in 2024, or other opportunities such as private placements.

67. You can find the details of our issuances in the appendix.

Slide 12: Diverse and stable franchise deposit base

68. Moving onto slide 12.

69. Deposits have grown solidly across all business lines this quarter, including in Barclays UK which had growth of £8bn, primarily driven by the acquisition of the Tesco consumer portfolios.

70. This was complemented by strong customer deposit growth in the Private Bank and Wealth Management business, as well as continued progress in the Corporate Bank franchise.

71. We also saw strong growth in the US Consumer Bank, where deposits were up 20%, driven primarily by our new tiered retail savings product. This aligns with our strategy to grow the proportion of funding from retail deposits to improve the overall net interest margin in the business.

72. Against a backdrop of modest growth in UK household money supply, we expect to maintain strong deposit levels into 2025 subject to normal seasonal variation, supported by the strength and diversity of our franchise.

Slide 13: Prudently managed LCR supported by a highly liquid balance sheet

73. Onto the next slide on liquidity.

74. Our average LCR of 172% was £128bn in excess of our regulatory requirements and our average net stable funding ratio was at 135%, both demonstrating a continued robust liquidity position.

75. This liquidity position also continues to provide ample coverage for our TFSME drawings of £18bn, of which £8bn is repayable this year.

76. We welcome the recent communications from the Bank of England around proposed changes to their repo operations to support the management of bank reserves.

77. Ensuring banks can make routine use of a range of facilities to source reserves, without stigma, in a quantitative tapering environment, is beneficial for the resilience of the financial system.

78. We are supportive of this goal.

Slide 14: £1.3bn structural hedge income in Q424; £4.7bn for FY24

79. Moving onto slide 14.

80. The structural hedge is designed to reduce income volatility and manage interest rate risk.

81. NII from the hedge increased £1.1bn during the year, to £4.7bn.

82. Income from the hedge is significant and predictable.

83. We have now locked in £9.1 billion of gross income over the next 2 years, up from £7.8 billion at Q3 and £4.8bn a year ago.

84. This will continue to build as we reinvest maturing assets at higher yields.

85. As customer deposit behaviour has stabilised, the average duration of the hedge has increased modestly to around 3 years.

86. The high proportion of balances hedged reduces our sensitivity to the short-term effect of rate cuts, as shown on the table on the next slide.

Slide 15: Lower interest rate sensitivity, with four rate cuts expected in 2025

87. The table shows an illustrative sensitivity to interest rate moves for our customer banking book, including hedges. It assumes a static balance sheet and an instantaneous parallel shift down of 25bps to both base and swap rates, with a year 1 total impact of approximately negative £80m.

88. On the slide, we have broken out the swap and base rate components separately.

89. The swap rate component shows the impact of rolling the hedge onto lower rates which compounds over time, while the base rate component mainly reflects the impact of the timing lag between base rate cuts and changes in our customer rates in year 1.

90. It is important to note that the income impact will fluctuate slightly depending on the exact proportion of balances hedged at any given point in time.

91. This has caused a modest increase in sensitivity since H1.

92. Turning to credit ratings on slide 16.

Slide 16: Targeting Barclays PLC to be "A" composite across all indices over time

93. Our aim is for Barclays PLC senior to qualify as single A composite across all indices. This remains an important medium-term target.

94. Of note, we welcome the clarity provided by Moody's on required levels of profitability for an upgrade.

95. We will continue to engage with the credit rating agencies as we progress with the execution of our three-year plan.

Slide 17: Q&A

96. Throughout 2024, we have continued to demonstrate the strength of the Barclays balance sheet. We expect our plan to deliver increased capital generation, supported by a more balanced business model and growth in more stable income streams.

97. With that, I'll hand back to Anna.

Anna Cross, Group Finance Director

98. Thank you, Dan.

99. In conclusion, we remain focused on disciplined execution.

100. This is the fourth quarter of progress against our 2026 targets that we are reiterating today and remain on track to deliver.

101. We'll now open the call for questions. Operator, please go ahead.

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- MREL is based on Barclays' understanding of the Bank of England's statement of policy on "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)" published in December 2021, and its MREL requirements communicated to Barclays by the Bank of England. Binding future MREL requirements remain subject to change, as determined by the Bank of England, taking into account a number of factors as described in the policy, along with international developments;
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