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Barclays PLC FY 2024 Results

Fixed Income Conference Call Q&A Transcript

(Amended in places to improve accuracy and readability)

Lee Street, Citi

I have three questions please. Firstly, you're targeting 50% of RWAs within the Investment Bank. But obviously the Investment Bank has got the lower end of your ROTE targets for 2026. My question is why is 50% the right number to target for the Investment Bank and why would you not want to more aggressively look to allocate capital elsewhere? Secondly, on (SRTs) Significant Risk Transfers, I'd like to quantify the CET1 benefit you get from them presently and under what circumstances could you see that capital benefit disappear suddenly, just to help us understand the risks? And finally, a specific one. You've got a couple of legacy AT1 securities losing their grandfather Tier 2 status in June. Just how do you think about the economics of those securities once that capital value has disappeared.

Anna Cross, Group Finance Director

I'll start with the first one. It's a good question. One we have thought about a lot. To start though, what I would say is that the Investment Bank, at the same level as the Group target of greater than 12% is at the lowest end of group, but it's not its expected final destination. We were pretty explicit this morning that, certainly in 2026, it will not have a market leading cost: income ratio, we think there's still more to go on capital utilisation and many of the areas that we are looking at are capital light in growth terms. We think we can push on from there.

The second thing I would say is it's not the final place for the UK businesses either. We think we can grow BUK, the UK Corporate bank and indeed Private Banking and Wealth Management into 2026 and actually beyond 2026, and all the while, what the Investment Bank is doing is generating capital for us to either distribute or invest in the UK. So, I wouldn't think of 2026 and that 50% as a final destination. It's more a reflection of where we think we can realistically get to within that time frame. And by that I really mean how quickly can we deploy RWAs into the UK. It's not a reflection of what we think the optimum balance in the group is.

Dan Fairclough, Group Treasurer

So the other two questions, first one on SRT. We give the notional that is subject to protection, that's in the in the presentation, it's £57 billion. We don't give the RWAs or capital associated with that, but you could look at Pillar 3 and you could probably get somewhere approximate using that data. In terms of the risk on it, we don't see that there's a risk of a sudden loss of capital treatment for these instruments. In terms of the profile of the structures, they're either full true sale securitisations, or they're synthetic where the amortisation of those transactions matches the underlying loans. And then all the transactions go through a very rigorous process, both internally and with the regulator to ensure that they meet the significant risk transfer requirements. It's a pretty well governed process.

Your last comment was on legacy transactions and loss of capital treatment in June. There are two transactions that are in question here. We're getting quite specific, and we obviously don't comment on individual securities. But what I would say is that we think we have made really good progress in terms of reducing the amount of legacy capital and these legacy instruments we think

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are better in that they're not from the resolution entity. In terms of calls or liability management. the normal general principles apply here. We'll consider refinancing costs, we'll consider upfront costs including FX, and we'll also consider market expectations. But nothing further specific to say at this point.

Paul Fenner-Leitao, Societe Generale

I've got four questions, but they're super quick. The first is on supply. Thank you for the colour around the £14 billion [of expected MREL issuance in 2025]. I know you don't love giving specific colour on each level of the capital structure, but you've got something like £2.5 billion of AT1 coming up for call. They're very high back end so it's going to be no secret that you're likely to want to look to call those. Is it sensible to assume that the proportion of AT1 and Tier 2 in this year's supply is going to be greater than it has been over the last couple of years, just because of the AT1 and you've also got a Tier 2 coming up for replacement later on the year?

Second question, you had out a really nice slide in this morning's call around forward rate indicators around what's going in the mortgage book and refinancing at higher rates. I know you're saying that you're not seeing any red lights but there must be some pain somewhere. And you guys have such amazing wealth of information in terms of current accounts and Barclays Wealth. Are you seeing anything in terms of behaviour around reduction in deposits or reduction in investment products as people refinance at higher rates and what proportion has already refinanced and what's still to come?

Question three in terms of ratings. [You have a] stable outlook in the two ratings that are the lowest. Moody's in particular looks like a bit of a laggard. Where are we in terms of the potential for an upgrade there and associated with that, you've got a Ba1 rating at Moody's at AT1. How much do you care? How important is it to you in terms of funding? Do you desire to have that pushed up to a composite of IG?

Then the very last one is regulation, obviously lots going on in the USA, lot of excitement that obviously helps share prices. What is it that you think is the low hanging fruit for you? I know we've had the delay [to Basel 3.1 in the UK]. But for you and the other big banks here in the UK, since you've now left the EU, what is the low hanging fruit in terms of reducing regulation meaningfully that's going to be impactful to us in our conversation every quarter?

Dan Fairclough, Group Treasurer

Let me start on supply. I think you've probably got there on your own in the question. You're right, you should sort of think about AT1 as being broadly balanced throughout the year. And as you said, we've got a bit [up for] call this year. The Tier 2 amount, you can just reference it on the redemption and the call schedule that we've got upcoming. So, it will be relatively modest, but it'll be driven by that and refinancing and then the balance will be in MREL.

In terms of ratings, we are very focused on particularly Moody's and S&P, given our ratings objectives. In the Moody's recent report, they put out a comment around the profitability guidance. They obviously did that in their own specific Moody's metric, but we're very focused on that and quite frankly, it aligns to our ROTE delivery really in terms of meeting that threshold. Clearly there'll be other things that they consider, but for us really it's about profitability and delivering on the plan.

In terms of the AT1 rating, of course it would be nice to get an upgrade there, but you know it's probably a mix of things that we think about in terms of our market access and our market spread.

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It's a component, but generally at the AT1 level, the investor base is probably doing much more fundamental credit work on their own. It's a factor but not the only factor.

Anna Cross, Group Finance Director

I'll take your question on mortgages. Clearly, we are seeing customers coming through and refinancing on higher rates, but there are no perceptible signs of strain there. And on one hand that might be quite surprising, but if we reflect on how these customers were stressed for affordability before they were actually lent to, front book rates have never gone anywhere near the rates at which we stress customers at the outset. We've not seen any meaningful signs of strain at all. If anything, the mortgage market looks pretty robust actually. And I think that's coming from a few things. The first would be real wages are growing, the second would be (HPI) the House Price Index is pretty steady on average, it's been about 2% a year over the last few years. And there does appear to be real demand there.

If I were looking for real clues and really delving into all of the detail that we have, I would say there are still signs of really robust behaviour and a bit of caution. And if I look at deposits, customers definitely sold some investments pre the budget actually and they've retained that liquidity, and you saw that in our deposit numbers in the fourth quarter. You can see it in UK retail, you can, you can see it in Private Bank and Wealth Management. If I look at spending data, card spending data from Barclaycard would indicate that spending is still lagging inflation, so customers are being very, very careful, although interestingly, what's now happened is that non-essential spending is overtaking essential spending in terms of growth rate. I would say that speaks to two things. Firstly, just the impact of slowing inflation on fundamental goods and services, but also maybe a slight uptick in confidence. And I look at our cards behaviour. Again, there's nothing there. You know, maybe balances are growing slightly more slowly than we would expect them to in both the UK and the US and I would put that down to customers are still repaying at relatively high rates and that's all the way through the risk stacks. And then finally, when you get to the credit performance, there's just nothing to see. It's very low, very stable. Historic lows of delinquencies across cards and mortgages in the UK, so it's really, really extremely benign, but customers are being careful.

Just on your point on regulation. I think the thing that we welcome is obviously the pause in UK implementation and as you can imagine, the conversations that we have are, [that] it's really important for us to align international implementation both in terms of timing and in terms of the fundamentals. We think that's good for the banks themselves, but it's also really good for our clients and certainly really good for our investors to have to have that degree of international alignment so we'll continue to have those conversations. In terms of specifics, I think that will be very different by different banks, but one of the things that Dan and I talk to the regulators here about a lot is really simplification of how the entire system can be more holistically hung together. And by that I mean, capital stress testing, resolution recovery, all of that as one coherent framework because actually they've grown up quite individually. It makes it a bit more difficult for us and you to navigate it.

Corinne Cunningham, Autonomous

A couple of questions from me please. The first one is on buffers… I'm talking about management buffers to the overall capital requirements. And we always think about banks really needing something like 200 bps plus to be able to provide a good level of comfort. Investors, particularly AT1 investors obviously face some consequences when you get close to the individual capital requirements. Your buffers are heading to the low side when we compare you across European banks. When you're setting your management targets, do you think about this in the context of other banks and secondly, in the context of earnings, and I know you're forecasting a pick up in

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earnings, but if you were to be facing some kind of downturn, would you consider building the buffers or you just think that where you are now is absolutely fine?

And then the second question, but just looking at SMEs and just wondering if there are, post budget, you're seeing, any signs of weakness in UK SMEs and any signs at all of early deterioration in asset quality?

Dan Fairclough, Group Treasurer

Absolutely, we think very carefully about the right level of buffers and thinking about our capital positioning, as we sit here, we've got an MDA of 12.2%, we've signalled that we're going to operate towards the upper half of the CET1 target range. For illustration, [a CET1 ratio of] 13.5% is 130 bps of buffer. There are a couple of ways that we think about that. Firstly, we think about it in the context of the CET1 organic capital generation that we have each quarter that provides us with flexibility. Secondly, we think about how dynamically we're able to manage the balance sheet. And I think a couple of other relevant points when you think about comparison, the first one is that in the UK, we have a 2% countercyclical buffer. That is generally something that we would expect to be released in the event of a UK macro stress. So, the UK regulatory environment has already built in some buffer into the capital requirements, that's obviously not the same in European jurisdictions and then in terms of comparison in the UK, not going to make comments on specific UK banks but it's important to look at where the O-SII level is for those operating big ring fence banks. And I think if you take all of that in the round, we think that the capital level is in the right place.

Anna Cross, Group Finance Director

I think the answer is similar across SMEs and as you stretch into our UK corporate bank, we see similar sorts of things. Post budget, no obvious signs of strain. Obviously, we remain very close to our clients. If anything, deposit levels remain high. We've gone into this environment with a relatively limited risk appetite around the areas that we think are probably more impacted by the budget. So particularly retail and discretionary consumer and we've talked about that before. So, you know we've got slightly restricted risk appetite there anyway. And then I think the last thing I would say is that the conversations we are having with that type of business is really, how do they drive their own productivity in order to be able to navigate this. And that will, we believe, actually give us some opportunities in terms of how we grow with them. But there's no obvious signs of strain. To the extent that we've seen any impairments in corporate or SME, they've been very isolated, nothing systemic.

Robert Smalley, Verition

Just three quick ones. First on deposits, you have four rate cuts. Are you seeing customers starting to want to term out deposits and if they do, what does that do in terms of your hedge?

Second question. On page 10 in the deck where you've got contractual maturities and calls on Tier 2, just give us a little idea of your philosophy around issuing Tier 2 as these securities amortise, do you do it at maturity? Do you look a year or two ahead of time? How do you really strike that balance?

And then third, just looking at your call report, some other US bank call reports. When I look in the categories for loans to non-depository financial institutions like private equity funds, I see there's zero for Barclays Bank Delaware. Are you doing this business? Can you give us an idea of the scope? And am I looking in the right place for these numbers?

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Dan Fairclough, Group Treasurer

So on, on the deposits, we've seen quite a bit of terming out over the last couple of years. Obviously the proportion of our deposit balances that are in one year fixed has increased over time. But we are seeing that slow over time. We can hypothesise on the reason for that, but clearly you might expect that those customers that were more inclined to do that and have more flexibility on their savings would have done so already. And obviously the shape of the yield curve, although that might be a rationale for terming out, also it means that there's one year fixed rates maybe look less attractive to a degree. So, look it's something that we're really watchful of, but we are definitely seeing stabilisation of that trend and have done in recent quarters.

In terms of the philosophy on the structural hedge, so every month we consider this and we obviously have the flexibility to what extent we roll the structural hedge depending on our assumption of those deposits remaining in hedgeable form. So, I think we have lots of room to manoeuvre and to consider data and events as they unfold, but there's lots of sign of stability at this point.

In terms of the Tier 2 question, we think about it more on the amortisation schedule. Not that we size our Tier 2 issuance exactly on the particular amount, but generally we will issue these instruments as capital even though they provide funding and therefore our issuance plan will be more keyed around either bullet maturities or when the instruments are amortising out. So if you think about a 10NC5 effectively you'll be refinancing that over the last five years. That's sort of how we would think about it.

And the last question is quite a specific question in the notes of the account. So if it's OK, I think, we might follow up on that one with you after the call.

Anna Cross, Group Finance Director

We thank you very much for attending the call. Thank you for your continued interest in and support for Barclays. And I'm sure we will see you or see many of you on the road in the coming weeks.

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