

Barclays PLC H1 2023 Results**Fixed Income Conference Call Q&A Transcript****(Amended in places to improve accuracy and readability)****27 July 2023****Lee Street, Citi**

Firstly, a broader one. Obviously, your equity valuation is now a bit low, and I do think that weighs on your credit spread. So, in my mind, I think you had a really good performance in 2020, which should really have vindicated the diversified business model. So, I guess that's not really been reflected in credit spreads or equity valuations. So, my question is, when you speak together as a management team, what do you conclude the reason for that is, and why you trade at a discount versus your peers?

And then a couple of quick ones just on RWAs. Are you able to give us a sense of your investment banking RWAs? What are those have been more volatile business lines? And what are those have been less volatile, a rough split?

Secondly, on the call this morning, you spoke about targeting more fee-based businesses. But at the same time, you're going to be looking to shrink some of the more capital-intensive ones in the context of that.

And then just finally, excluding Basel 3.1, what's the generic trend and trajectory for RWAs as we look ahead sort of for this year and the following year end?

Anna Cross, Group Finance Director

Obviously, we share the frustration that you articulate with where the equity is valued. And as you might expect, it does occupy a degree of both Executive Committee and indeed Board's time, it's something we are very thoughtful about. We believe that we have delivered improved earnings. Our job is to ensure that we do that consistently and consistently across all of the divisions. And again, we feel like we are building up a track record on that but it's a track record that we'll have to keep continuing with, and we are extremely focused on that.

We also feel that, not least, given the over-issuance last year, we must run the bank in an excellent way without mistakes every day. And again, we're very, very focused on that investing in the resilience of the bank and just really focused on being excellent in delivery in each one of our businesses for each one of our clients and customers each day.

At the heart of this, what we really believe is, is about consistency of attributable profit and then delivered back to our shareholders in a compelling way. Now they will want to understand how we're allocating capital, both within the firm and to them. And that's clearly something that we are working on. But we're

pleased with what we've been able to distribute today given the dividend is up 20%, and we've announced a £750m buyback. That's a shareholder return today of £1.2bn, which is 5% of our total valuation. So, we just need to keep repeating that. It's how we feel about it.

Now we are much more reflective, which gets me into the second part of your question really around how we allocate capital around the bank. We don't quite see it as simply as CIB or investment bank versus the consumer side. I think it's a lot more complex than that. There are parts of the CIB, which are actually quite capital-light and less volatile. And there are parts of the CIB that actually are extremely strong client franchises like our corporate business, which again are capital light, not volatile at all. So, this is not a CIB versus non-CIB question for us.

And really, it's not capital in isolation that we're looking at. It's the return on that capital. So Venkat today, you might have heard him on the equity call talking about a business, which has a lot of opportunities for growth, but in fact, it's quite capital intensive, our U.S. Cards business, so our focus there is not to exit that business or not to grow it, but actually to find ways of making it more capital efficient, and that's what we're really focused on.

The last thing I would say is that having volatile businesses is okay, provided we manage the risk well, which we feel we have done consistently through a range of macro environments, and actually having RWAs associated with those businesses is also fine, provided we are disciplined in driving the right returns. Those are the most liquid RWAs that we have, and they allow us to manage our capital position in a very flexible way that allows us to optimize the return for the bank.

So, I think just stepping back, I would say we're focused on returns at a very granular level in the bank. We'll talk to you more about that in the future. And we'll communicate that through disclosure through time.

Aabid Hanif, Natwest

Just following on from some of the comments from this morning on the earnings call and also from the previous question around some of the growth in CIB. I know in the last call, you mentioned around AT1, using dollar AT1 issuance to finance the investment bank. So just a few words on those areas of growth and whether we can potentially see, I guess, further dollar AT1 issuance as part of that growth plan?

Anna Cross, Group Finance Director

I mean what you're really talking about here, I think, is the growth in our financing business within the CIB, which is the business I was talking to before, which is employed within markets, but is actually capital-light, it does leverage, and therefore our ability to raise AT1 is important for that business. We do see opportunities to grow there. It's a business on the fixed income financing side. It's a business that we've been very, very strong in for many, many years. And actually, what we've done is we've grown Prime alongside it.

And we're operating that for our clients from a single platform and a single leadership team. And the reason that's important is that it allows us to see and manage risk across our clients' entire holdings, whether they be in fixed income or on the equity side in Prime. We also think that that speaks to the strategy that many of our clients are following. Our client tends to be the large global, very well capitalised, very diversified participants in the market. And this sort of unified approach by the way we pursue the business suits them because they are increasingly diversified themselves and increasingly multi-strategy. So, we think our strategy and this fits well together. We're seeing that in increased balances over time,

and it's a business that we continue to invest in, both in technology and talent. And Dan, you might want to comment on the funding side of it.

Daniel Fairclough, Group Treasurer

I mean we said in the scripted comments that we do find that the AT1 is useful. It's useful for total capital, our total capital ratio as well as for leverage ratio purposes. But we're a programmatic issuer. We're not focused on necessarily a call versus issuance. And it's an important part of our business, but it's a very flexible part of our business given the sort of short-dated nature of the leverage balance sheet.

Robert Smalley, UBS

Looking at page 26 and 27 of the release today and I just want to make sure I have my numbers right. So, we're looking from year-end point to middle [of 2023]. It looks like the loss rate for Barclays International went from 191 bps to 344 bps. So, I'm guessing that when I look at that 344 bps number, is that when we talk about normalisation, is that a normal number? Do you expect that to go up materially from here? Or is that kind of a run rate at this point.

Second, just on mortgages. In terms of affordability, a comment was made on another call that once mortgage payments get to 40% of a client's net income, then that becomes problematic. Is that how you look at affordability as well? Do you stress for that or something like that around income?

And then finally on deposits and I appreciate the disclosure that you've had. But we have seen a pretty quick migration certainly over the last quarter. Do you expect this to continue? Is it slowing down? And are there any lessons learned in all of that?

Anna Cross, Group Finance Director

So, what we're seeing in that Barclays International retail number is exactly what you described. It is normalisation. What happened, obviously, during the pandemic is customers' utilisation of cards really slowed as they amassed deposits. And what we're seeing as we come out of the pandemic, two years on, is that they're starting to use their cards in a more normal way. And particularly in the U.S., that recovery has been a bit faster than we see in the U.K.

So, the way we look at things, Rob, is actually at a very granular level, we look at by FICO band, and we also look by clients, we are looking at our individual partners. And what we see is that actually individual FICO scores behaviour is now back to what we would describe as a sort of pre-pandemic normal. What is leaving the charge quite as low as it is or the delinquency rate quite as low as it is, is that our mix has improved since pre-pandemic. And that includes having onboarded the GAP portfolio. So, what we've seen over time is that the average FICO in our book has sort of edged up.

Now one caveat to that would be the U.S. Card business in particular is quite seasonal in its balance build. We tend to see higher balances in the fourth quarter because of the holiday season. So, I'd expect a bit of a pickup of impairment towards the second half. And then again, we'd expect it to fall after the first quarter next year. So, a bit of seasonality in there, but we are nearing normal, I would say.

And in terms of U.K. mortgage affordability, we have very strict rules about testing affordability before we can extend a mortgage, and those rules have been in place since 2013. What that means is that we are required to test the affordability of the customer, whether or not they could afford the mortgage when it's to go on to what we would call the reversionary rate or the follow-on rate plus a margin. So, what that means is that anybody that's on our book now has been stress tested at least at 6.7%, which

is somewhat ahead of where rates are now.

So, whilst there's definitely some affordability pressure in the U.K., we do feel good about the fact that we've robustly tested affordability on the way in. And we continue to do that. We actually did a piece of analysis recently where we retested affordability of all of our customers using an external party. And that allowed us to focus in on the part of the book where we expected affordability to be more constrained and actually, it was a very small and reassuring part. And I think that's playing out in our credit results actually. So, if you look at our impairment, it remains low and very stable. And of course, the loan-to-value on this book is extremely low from a credit perspective.

And then finally, on deposits. I would say we've seen some trends in Q2. They look like they're exactly in line with the industry on retail deposits actually. So, we don't disclose the mix of our deposits. But from what we've seen from reported peers, that split between current accounts and savings and that movement overall looks like it's a wider market phenomenon. So, we're not concerned about it at all. We expect this migration to happen and migration to higher rate accounts is happening as we thought it would actually.

What we're seeing is that customers are using their surplus deposits in order to deleverage. And as a credit matter, we are very happy with that balance. So, they're overpaying on their mortgages, they're paying down their cards. And whilst that means that our net interest margin might be lower now, it also is feeding through a very, very strong impairment print.

Daniel Fairclough, Group Treasurer

Just I'd echo the point that it's very much a macro phenomenon. So, we expected deposits to decline as money supply declined, and it's declining both because of quantitative tapering and also loan contraction. So, it's part of that macro phenomenon. And it certainly, it feels like it's less than in the U.S., for example where there are alternative deposit competing products. So, we would expect it to continue, but kind of really driven by those macro trends and money supply in particular.

Daniel David, Autonomous

I've got 3 questions. The first one is just on Tier 1 headroom. I just heard comments on being a programmatic issuer and not looking at it on a kind of a bond-by-bond basis. Just interested if there is scope to run the Tier 1 headroom a bit smaller for kind of H2 or whether you're likely to build back up to the levels that we've seen in the past. Any comments on how we should think about that Tier 1 headroom would be interesting to hear.

Second, just issuance plans, and I see your comments on prefunding. If I look back what was in the H122 slides, I see, you had a target of £9bn. I think you ended up printing £15bn, so that's £6bn extra, which is quite a big number. I guess looking at the £4bn that you've got remaining, should we be thinking about that potentially being £10bn? Just thinking about how your debt trades and whether that might be a factor on when we think about how spreads could progress in H223.

And then just thirdly, I'm sure you've seen a big French bank talked about debt accounted AT1s to get rid of the FX impact on redemption. Is this something that you consider, something that could be on the agenda, maybe a bit further down the line?

Daniel Fairclough, Group Treasurer

Let me start on the Tier 1 headroom point. So, we've got a lot of flexibility in how we run that ratio, as we've discussed before. It's really a commercial choice that we make, the cost of AT1 versus the return

on leverage balance sheet, which is liquid. So, I won't make any sort of forward guidance on where that ratio will be, but it does allow us to be a kind of very cautious and considered issuer, particularly given the market volatility that we've experienced in AT1.

In terms of issuance, so yes, I understand your point about last year's issuance. If you go back to the call that we did at the full year, we did flag that there were some specific reasons for the volume of issuance that we did in 2022, particularly in relation to rates and the impact that that had on the fair value of our MREL stock. So yes, £6bn was larger. It was an increase over what we said we would do. But that was due to quite specific circumstances in the second half.

In terms of prefunding for this year, we'll look at it. We'll be opportunistic given market conditions. But sometimes, it's prudent to do in the light of volatility.

Last question on debt AT1, yes, I mean, obviously, we watch this with interest. Clearly, it's not a new development. There have been debt AT1 structures in the market before. And as you point out, there are some advantages from an FX perspective. But look, it's something we'll consider. And clearly, any issuance would need to be sort of fully agreed with the regulator, that will be a fairly significant lift. But will watch it with interest now.

Anna Cross, Group Finance Director

Okay. Well, thank you, everybody. We really do value your interest in Barclays and you giving us feedback and comments on these calls. So, thank you for joining us. We hope that you have a great summer holiday when it comes, and we'll see some of you on the road over the next few weeks. Thanks all.

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