BARCLAYS

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Barclays PLC Full Year 2012 Results

Analyst Q&A Transcript

Question 1

Chris Manners, Morgan Stanley

Hi there, good morning everyone.

Chris Lucas

Morning Chris.

Chris Manners

I was just, I had a question which was on your Barclaycard impairment charges. I could see that it has actually been rising for a couple of quarters and maybe you might be able to give us an update on what you think are the trajectory there and whether that is something that we should be concerned about? Thanks.

Chris Lucas

Let me ask Robert Le Blanc, who is with me, to add to comment. But my overall view is the performance of Barclaycard in the credit area has been extremely strong and there is nothing that I see that makes me worry about it as we look forward.

Answer: Robert Le Blanc

I think that's right. Good morning Chris. We have seen improvements in card climate over the last couple of years, principally in our US and UK portfolios as the economies have improved as well. And the card portfolios of course are all over the world including Europe and South Africa. So although they do move around, the trend has been positive and I'd say we expect it to remain fairly steady from this point. So no, nothing there particularly concerning.

Further question

Chris Manners, Morgan Stanley

Okay, thanks Robert. Would it be possible maybe to just ask you to expand on how you see the credit outlook across the Group in that case?

Answer :Robert Le Blanc

You certainly can. Yes certainly I will make just a brief comment on that if I may. You will recognise that we have seen a very significant reduction in impairment over the last three years. But if you look closely the general trend in the second half of 2012 were broadly steady compared to the first half. And so the strength of the improvement we've seen has started to steady out as I think we had expected and guided you on. I think the trend this year will be steady across most portfolios in wholesale and retail. There is some room for a little bit further improvement, but my outlook for this year is a broadly steady one with potentially some slight improvement and we think that will come through in the impairment numbers for this year.

Chris Manners

Thank you.

Question 2

John-Paul Crutchley, UBS

Morning chaps. Can you hear me okay?

Chris Lucas

Morning JP. Yes we can,

John-Paul Crutchley

Yes it was a broader question I guess in terms of the context of the numbers. For the last Financial Policy Committee, clearly the FSA was sent away to have discussions with the banks on the three broad topics, forbearance, making sure legacy costs had been properly numbered and risk weightings. Clearly you have taken charges on legacy items. That is fairly apparent. You have talked about in the UK Retail results about risk assets going up because of more comprehensive approach to forbearance. I wondered if you could discuss around that? And on the third point on risk weightings, I wonder if you could elucidate how that discussion has progressed? And can we conclude from this and given the strategic statement which you talk increasing dividend policy, that as far as you are concerned, those debates with the FSA on capital and the like are closed and therefore the debate with Barclays in particular, it is likely to be the subject of needing more capital with this debate that is going on between the FSA and FPCs is done and dusted?

Answer : Chris Lucas

Let me start and ask Robert to touch on forbearance and then we will pick up RWAs. I think JP, in general terms we share, as you can imagine, pretty much everything with the FSA on an ongoing basis. So they have been with us and briefed on the strategic reviews that we are talking about later on today. And also those areas of forbearance, RWAs, AVAs and impairment on certain areas. What I don't think we would ever say that they have to make our decisions for us, that is very much our job. We have a constructive dialogue with them and over time understand their position and they understand our position. And you can be sure that we have briefed them as to these results. We have briefed them as to the forward looking views that we will be talking about later on. And I think it is a very constructive dialogue. How that plays out as we go into the future, only time will tell, but I am very pleased with where we are at the moment. Robert.

Further answer : Robert Le Blanc

Thanks, I would only add that when we look at forbearance from a capital point of view, firstly we have been carefully measuring and monitoring the levels of forbearance themselves which is disclosed in the results this year. And really what has changed from an RWA point of view is simply the recognition of forbearance as an impairment event or as a default. And that has been changing and being adjusted through our RWA model. So it has had an effect during the year.

Further answer : Chris Lucas

If I look more generally at RWAs, probably the best place to be is on slide 33 which shows the bridge from £391 billion RWAs at the end of December 2011 and £387 billion at the December 2012. And you can see in there, there are some quite sizeable individual items of methodology change of £20 billion operational risk uplift of £18 billion, offset predominantly by business reductions which are real business reductions, including legacy assets of about £28 billion. So there is some big moving parts that it shows that, mostly things, lots of big moving parts net down to almost low significant change year-on-year.

Further question

And on risk weights, is that within methodology changes or is that something that hasn't changed materially?

Answer: Chris Lucas

It is a mixture of methodology changes. It is a mixture of business reduction where the returns are insufficient and to give you a flavour, if you look at methodology changes in the £20 billion on slide 33, it is made up of an increased market risk charge changes to sovereign loss given defaults and slotting of mortgages.

John-Paul Crutchley

Okay, thank you.

Question 3

Michael Helsby, Bank of America, Merrill Lynch

Morning everyone. I have just got a question on the Investment Bank's costs. Comp ratio was 39% and your bonus pool was down 15%. One of the ways I look at it is to look at the bonus as a percentage of net revenue and that was 11.5 versus 15.7 last year. And your deferral rate has changed slightly. I was wondering if you could give us a little bit more colour around how you see both the deferral rate evolving in the next couple of years in the light of your plan? And also whether an 11.5% sort of bonus as a percent of net revenue, if that is now consistent with sort of the mid 35 comp ratio you would be looking for? I.e., can we take 2012 as a reasonable base forward? Because it makes quite a big difference. Thank you.

Chris Lucas

Let me ask Rich to start and then I'll make a few comments.

Answer : Rich Ricci

Morning Michael. I guess there are a couple elements to your question. First, I have been on record several times as talking about our comp income ratio. I see normalising in the mid-30s over time. And you have to recall as I know you know that what you are looking at is the actual in-year charge that gets hung up with the actual bonus pool in the year, but over time I would expect those things to kind of come into line with each other. Now that would mean that I would also see the full rate decreasing over time. We have had some extraordinary circumstances and for very good reasons had higher than I would say our normal deferrals in the last couple of years. But I would see those decreasing in time. They have decreased this year actually. And as I say, over time, best in class Investment Banks and Banks for that matter with have comp income ratios in the mid-30s and we are on a journey to get there.

Answer : Chris Lucas

When we look at all the different measures of comp to income, yours Michael is a new one that we haven't used before. We will certainly plot that out and if there is anything we want to add to what we have said we will do so.

Michael Helsby

Okay. Thank you.

Question 4

Andrew Coombs, Citigroup

Good morning, I have a question on slide 35 please, on the proforma CRD4 capital on WRAs. Two questions related to that I guess if I split it up. Starting on the numerator. If I look at your tangible rate of share, you have reported 373p, but adjusting for IS19, two and a half billion equity here and IFRS10 at point five billion share equity. So proforma 350p. But I just wanted to check that both of those aspects are already captured in your fully loaded Core Tier 1 guidance on slide 35?

And then the second half of the question, on the RWA number, back at the 9 month 2012 stage you were guiding to £485 billion of Basel 3 RWAs by the year end. You are now guiding to £468 billion and the two big moving parts in that look to be the CVA which has dropped from 46 to 29 and securitisation which has dropped from 39 to 25. I was just intrigued as to what the big driver in those two changes has been? Thank you.

Answer : Chris Lucas

I think the answer to your first question about whether accounting changes have been included, the answer is yes they have. In terms of RWAs and I think if I heard you right, you were talking about the £468 billion. There are a number of things in there. There are securitisations where the impact of IFRS10 goes and the net capital change flows through there as well. The other area of reduction is the CVA. And I think one of the things that is becoming clear to us is the volatility of the CVA number arising from changes in spreads. So you are very correct in what you were asking. And I think the 268 is a more accurate current view of where the numbers are going to turn out.

Andrew Coombs

Okay, thank you.

Question 5

Raul Sinha, JP Morgan

Morning Chris. Can I just have one question on UK Retail's performance. It seems to be quite good, loan growth pick up there in the second half of the year and looking at the Bank of England data, Barclays seems to be outperforming the other banks in terms of the FLS loans extended. Can you comment on how the performance was in Q4 as to balances and margins and how we expect that to trend forward?

Answer : Chris Lucas

You are absolutely right that we think we are taking market share in the FLS. In terms of trends, we have seen up upward trend and it is particularly noticeable in an upward increase in deposits. And I think there is not much more to say. We have got a good performance, there are a couple of individual items in there that have a bit of an impact on the fourth quarter, but overall good volume growth continue gains and asset growth. So I don't know whether that fully answers your question, but we are pleased with the performance.

Further question

I guess my question was more towards the underlying momentum with the business heading into next year and especially as deposits costs come down and you are seeing a pick-up in margins. Perhaps I could follow-up later in the day?

Answer : Chris Lucas

Yes I think we can cover that in more detail later today, but I would say the underlying performance is good. We think there is growth there. We see particular area for growth in volumes in customer deposits which will offset flat margins that we expect to see. But net flat margins increase volumes improve net interest income and good performance overall.

Raul Sinha

Thanks very much.

Question 6

Manus Costello, Autonomous

Morning everyone. My one question, I will go back to slide 35 please, the proforma impact. I notice that you have shifted the PVA adjustment out of the transitional into the fully phased numbers as of day one. I wonder what has driven that? And it obviously doesn't impact us on a fully phased basis, but do you think it will impact your ability to issue further contingent notes which tend to be based on transitional measures? And this obviously is quite a negative for that?

Answer : Chris Lucas

I think it is and this is one of the outcomes of the dialogue we would have had with the FSA where it was thought to make more sense and certainly be more prudent to put this in fully loaded rather than transitional over a period of time. You can debate the matter either way, but we think doing what we have done sets out the ratio at the most prudent basis of calculation rather than anything else.

Further question

And nothing else within the transitional provisions which could come back into the pre-transitionals?

Answer : Chris Lucas

No not that we are aware of.

Manus Costello

Okay thanks.

Question 7

Ian Gordon, Investec

Good morning, it's just coming back to the UK Retail performance and in particular mortgages. As we heard in the previous question, your balance sheet growth has been strong. I think your mortgage growth across the full year was about £7 billion H2 weighted. In terms of your current pricing, clearly you are being more aggressive than some of your peers. In 2012 arguably you had it easy while Lloyds and Santander UK were giving away share as fast as they could. Is it your intention going forward to maintain your more aggressive pricing to broadly sustain the pace of balance sheet growth even in a slightly more competitive market?

Answer: Chris Lucas

I think we would have to look at that on a case by case basis. The important thing from my perspective is that we look at the return we make on the products and we look at the return on equity that we make in the business. And any decision we would make about the aggressive or not aggressive, in terms of pricing, would be very dependent on being able to pass and exceed the return on equity target that we have set for the business that we will hear more about this afternoon.

Ian Gordon

Okay, thank you.

Question 8

Andrew Lim, Espirito Santo

Morning. Just got a few questions please. Your liquidity coverage ratio you have published at 126%, presumably that is on the new Basel 3 basis. I was wondering if you could give some indication on how you would like to run that? Would that be closer towards 100% and therefore you could be able to reduce your liquidity pool down?

Answer : Chris Lucas

Andrew rather than queue them up, let's try and answer them one by one. The answer to that is, it is based on the latest view of the LCR rules and we would expect that 126 to come down. But if it gets down as low as 100, I don't know. We would have to look at that over time. But it would certainly trend it down. That of course would have the benefit of reducing the cost of the liquidity pool which is the important thing we have been aiming to do. So I hope that answers your first question.

Further question

That's fine, thank you. On page 35 referring back to the capital disclosure. You are the only UK bank to have this PPA adjustment, £1.2 billion for yourselves. I was wondering, with what kind of certainty can you say that is actually applicable going forward? How much can we take that as a concrete adjustment to be made there?

Answer : Chris Lucas

It feels pretty concrete to me.

Further question

Okay, thank you very much. And then thirdly, could you clarify what your outstanding existing Tier 1 and Tier 2 hybrids are? How much these are?

Answer : Chris Lucas

Bear with us. Can we look at that answer and come back to your with a response. It is regarded as about £9 billion.

Andrew Lim

In aggregate for Tier 1 and Tier 2, okay. And then just more straightforward I hope, could you give a bit more colour on the negative revenues at Head Office?

Answer : Chris Lucas

There is a range of things in there. I think the best thing to do is to wait until we have re-stated with the allocation of Head Office expenses and income and look at it on a go forward basis.

What I would say is that if you look at the overall Head Office number, it has been creeping up. But when you look at it year-on-year, it has relatively small impact on the overall Group with the exception of the Group return on equity. And of course our objective will be to allocate that out more fully. And I think that will be a good time to catch up on the individual component parts of it.

Andrew Lim

Okay, many thanks Chris.

Question 9

Fiona Swaffield, Royal Bank of Canada

Good morning, just a question on the Basel 3 leverage ratio. So I think you are saying within 33 times compared to the £49.5 billion. So you are talking of a balance sheet of 1.6 trillion or below. Is that the right way? And could you just take us through what the adjustments are under Basel 3 relative to your just under a trillion US GAAP?

Answer : Chris Lucas

I think the answer is yes, how you described it is right. But I think what I'd suggest we do is take that offline and get one of our guys to go through it with you. It is an art rather than a science.

Fiona Swaffield

Okay, thanks very much.

Question 10

Chintan Joshi, Nomura

Hi, good morning. Apologies, I had a technical issue so I might have missed some comments. My first question is on just what do you see as a picture in mortgages in the UK? If I look at SVRs of bank they are not of 4%. However if you look at two year mortgages you can get them now at 3.1%. So are you seeing switching behaviour from your customers who move from SVR to new lower price fixed deals? And how do you think about headwinds from moving from 4% SVR to 3% new fixed rate deal?

Answer : Chris Lucas

I think maybe you missed the colour, but our view on mortgage pricing is that we will be competitive and in particular we will want to look at the returns that we make on them on a product by product basis. And look at whether it meets our return on equity requirements. The direction of travel that we are seeing is very low SVR volumes, mostly fixed and tracker. And increased numbers of buy to let, increased volumes. So really across the board increase in volumes and good performance as a result of it.

Further question

Okay. The second question was on some of the targets that you have given. If I think about the £16.8 billion cost target, after that the £700 million restructuring. With the mid 50s cost/income ratio, that seems to imply a 10% revenue growth for a 9% cost reduction. I am just trying to tie the two together. What do you think your areas you will grow revenues and yet cut costs by about 10% each?

Answer : Chris Lucas

Can I suggest we get ready to answer that question after the strategy session we are doing this morning and afternoon because one of the things we tackle is exactly how you get that cost performance line as you have been trying to derive. So it will be easier to be done once we have released the slide packs and information later on today.

Further question

Fair enough. And just one final detail question. What was the driver of the quarter on quarter of risk weighted assets?

Answer : Chris Lucas

The quarter on quarter was operational risk events which gave rise to an increase in RWAs.

Chintan Joshi

Okay, thank you.

Question 11

Gary Greenwood, Shore Capital

Hi, it's Gary at Shore Capital. I just wanted to come back to the issue of bonuses because I didn't quite understand, given the sort of current hype around bonuses and banks attitudes to bonuses, why you have increased the current year cash bonus? And again why you are talking about reducing the amount of deferral. I am a bit surprised, I would have thought the route to be going down would be the opposite to that?

Answer : Rich Ricci

Hi Gary, it's Rich. It is a good question. I think, what I am referring to, is we have had extraordinary events, we are clearly have a conservative deferral profile, but because of some of the events we have had, we have increased deferrals. What we do is try to get the balance right between making sure the interests are aligned and you are not overloading your deferral rate in any one year that is irrational for the shareholder. Because you want to make sure, because you have the costs that roll in of deferrals, if that rate is too high in any one year if you are working to a cost/income ratio, it could affect your flexibility one way or the other. So it is about getting the balance right. And I think we have just had a couple of extraordinary years where we have been particularly conservative in our deferral rate which might not be in the interest long-term to shareholder in terms of what we can pay the franchise versus pay them.

Further question

Surely it is the cash rather than the P&L that matters though?

Answer: Rich Ricci

Yes of course, it is both. But the cash payments. When I am talking about a significant increase and the way we have skewed our deferrals this year, it is obviously toward the top of the house. So we are trying to get the cash that is released into the hands of the more junior people in the organisation.

Gary Greenwood

Okay, thank you.

Question 12

Christopher Wheeler, Mediobanca

Yes, good morning. A question really I suspect for Rich I think. And it is really looking at the fixed income trading numbers. If I look at the big banks who have reported to date we see quarter on quarter the average decline has been 24%. You managed just 8%. And also I think for the first time in a long time, you actually earned more than Deutsche Bank in fixed income trading. That is quite a remarkable performance. Could you perhaps comment a little bit on the skew of that, how much perhaps was due to the US business and your spread there and how much perhaps just to your taking market share and where you took that? Thank you.

Answer : Chris Lucas

We like your comparisons Chris. I will ask Rich

Christopher Wheeler

I am glad about that!

Answer : Rich Ricci

Good morning Chris, let me talk about first where we did gain. We certainly saw a market share gain in credit and rates. We saw some reduction in securitised products. There was a reduction at BACS. Certainly the US was strong. Lower market volatilities more broadly reduced the quarter. But we have said previously we have been very consistent with our income. We don't run a lot of inventory. We have been taking market share. You have seen some players drop out of this space. But it certainly in the quarter to quarter comparisons it was really down to improved performance in credits and rates, mainly driven by the US.

Christopher Wheeler

Thank you.

Question 13

Mike Trippett, NUMIS

Chris good morning. Just a quick question on the provision that you have now taken on PPI and interest rate hedging redress. I just wondered if you could give a bit more on interest rate hedging, as to what sort of share that would represent? And what I am really looking for is a degree of comfort now around the level of those two sets of provisions?

Answer : Chris Lucas

Yes it is difficult because they are moving targets, but if we take them individually, it is on page 91 of our Results Announcement. But if I look at the interest rate hedging redress, you know that we have had the guidance from the FSA so we have got a pretty clear route map as to what we need to do in terms of the number of customers who have not complied with relevant regulatory requirements, the nature of redress offered and the look of the reasonably foreseeable consequential loss. So all of those are estimates we have had to make to include in the provision that we have made. It is our best view and I should say that out of the £850 million, we have spent something like £36 million, so it is a very big provision against a very small cash payment at the moment. And we think based on the best available information that the £850 million is a good number. If I look at PPI, it is a different product range, it is a much greater number of individual claims and therefore it is a more volatile set of statistics, particularly if you look at trends of claims that are coming in. So I feel pretty comfortable about the interest rate hedging, it is less easy to be comfortable on the PPI. But in both instances we have taken our best view of the situation as it prevails and provided accordingly.

Mike Trippett

Thanks very much.

Question 14

Chris Manners, Morgan Stanley

Good morning everyone, sorry just one more question. I was wondering how do you think about the Turulo proposals from the Fed about subsidiarisation of the US operations into an intermediary holding company? Have you thought about how much capital liquidity could be trapped there and what the potential costs could be and what the impact to the business would be if you tried to mitigate that?

Answer : Chris Lucas

We are working on it Chris, as you know the requirements are still being completely developed. And Antony will talk more about it this afternoon. But we are looking at different options in the intermediary holding companies, what the funding costs will be and what we need to do to be able to comply with it. Let us get through this afternoon and then we will come and have a conversation with you, but a lot of work is being done in the area.

Chris Manners

Okay thanks. Maybe we will catch up a bit more this afternoon. Thanks.

Question 15

Michael Helsby, Bank of America, Merrill Lynch

Thanks. Just I was wondering if you could give us a little bit more colour on your comments on January. It feels like fixed income equities and prime are all off to a very good start, certainly relative to January of last year. So I was wondering if you could give us a little bit more colour which would be helpful? Thank you.

Answer : Chris Lucas

It would certainly be helpful. I think as I said, it has been a good month and one month is a relatively short time frame to carry over the whole year. But across the board different products have been doing well, different businesses have been doing well. So I think it is a good base to go into the rest of the year and the Strategic Review.

Further question

Okay. And just on bad debt. I think you mentioned you had this bottoming out process. But I think clearly Africa you mentioned still inflated, Spain and Western Europe still inflated. Could you just drill down into those two areas and maybe talk a little bit about the outlook please? Thank you .

Chris Lucas

Let me ask Robert to do that.

Answer: Robert Le Blanc

Good morning. I think those are areas where there is still, particularly in Western Europe, still risk driven by the economies there. And we have seen increasing rates of impairment. Remember our businesses in Western Europe, our largest books are on the mortgage side. So that went up last year and potentially could go up higher this year. So the rate is higher, although the absolute numbers are relatively small for the overall impairment performance. Africa had some impairment in mortgages in South Africa last year which was an LGD or a legal recovery increase and we don't think that continues this year. But I think the Western Europe portfolios will remain under pressure.

Michael Helsby

Okay, helpful. Thank you.

Question 16

Jason Napier, Deutsche Bank

Good morning. Two if I could be cheeky please. The first for Robert I think. Thank you for the new disclosures on forbearance on the wholesale side. I just wondered, could you confirm that there isn't really much contention around the definition of forbearance? Considering this is one of the things the FBC wants the FSA to look at, the numbers don't look particularly large and the provision coverage looks pretty high. So I just wondered, is there an issue around definition for forbearance? That is the first question please.

Answer : Robert Le Blanc

I think there is always a question, there has always been a question of interpretation of forbearance on the wholesale side. I wouldn't, you may not be choosing your words too carefully, but I wouldn't call it an issue, but I think there are interpretations and refinements we have made. We have done them also together with the Regulator in terms of what we think the RWA effects will be. But we think it is a fairly wholesome picture and will continue to update on that as we release these on a regular basis. So there are interpretations you have to make on the wholesale side. I wouldn't call them issues so much as interpretations.

Further question

So your broad definitions are in line with the way the Regulator looks at these sorts of things?

Answer: Robert Le Blanc

We believe so.

Further question

Great, thank you. And then a question for Rich please. The gain in market share of Barclays in the IB is obvious. So I just wondered to what extent you look at the loss of traction at the likes of CS and UBS and other banks that have perhaps been at cost cutting for longer? And I wonder whether the sort of targets that have been set for the overall Group, how much of that is already done or how much you fear some retrenchment of the gains that you have made as you embark on this? I mean how far along the road I guess I am asking, are you at this stage?

Answer: Rich Ricci

I think Jason what I would say in answer to that is, over the last few years we haven't been standing still. We have really started reductions in force across the business as far back as 2009. So I think ours has been more of a steady focus on costs. I think the cost reductions that we are at the point of now, is certainly more targeted and I think towards areas where we need a right size for opportunity. You are right about some of our competitors exiting in a large way. I think for the scale players, which is four or five of us, will continue to pick up passive market share and it is good news. I think there is more to come as others continue to retrench. But I think as far as we are concerned, I don't see any retracement if that is your question of our gains.

Further question

So most of the savings do they relate to areas that you like to de-emphasise rather than just reducing sort of resourcing across the board?

Answer: Rich Ricci

No I wouldn't say de-emphasise. Certainly I think that when we built out our equities and that is the banking businesses around the world, the estimates for what fee pool might be were quite large at the time. I think as those fee pools estimates have reduced, we have reduced our size and scope. That doesn't mean we are going to be global or disinterested in the business. But certainly I think we want a right size for the size of the opportunity. So that is where the cuts have been made, but you will hear more about that this afternoon.

Jason Napier

Thank you.

Chris Lucas

I think that is all we have time for. I know we will be seeing many of you later on today. So thank you for joining us and we look forward to continuing the conversation over the rest of the day. Many thanks.

End