Barclays PLC H1 2022 Results

Fixed Income Conference Call Q&A Transcript

(amended in places to improve accuracy and readability)

28 July 2022

Lee Street, Citi

Firstly, as it relates to the US shelf registration issue, do you presently face any impediments or restrictions in terms of either secondary market making or primary issuance across any currency or products?

And then, as it relates to risk-weighted assets (RWAs), is there an upward bound of what you'd be comfortable hitting in the CIB as a share of overall Group RWAs? Secondly, do you split out the proportion of CIB RWAs that relate to [Global] Markets or can you give us any indication as to what they might be?

Dan Fairclough, Group Treasurer

On the first one in relation to the issuance programmes, we have the full set of programmes up and available to us, with the exception of the US structured notes programme, which we're not currently issuing from given that we've announced the rescission offer. But all the other programmes are up and available to us, and there's no further specific restrictions on our activities in relation to the capital markets.

Anna Cross, Group Finance Director

We don't have a specific target for [CIB RWAs] or how we deploy RWAs around the Group. What you're seeing is us essentially reacting to market opportunities, and we think that's a really important part of being a diversified group.

It would somewhat undermine that diversification if we had strict absolute limits. Having said that, some of the growth that you are seeing across H122 does relate to some of the regulatory changes that we had on the 1st January as opposed to business deployment.

If you're looking for the helpful disclosure around RWAs, we don't split our Markets specifically. But if you look at page 61 of the RA, you can see the split of counterparty credit risk [and market risk] in Barclays International, so that might be helpful to you.

Rob Smalley, UBS

On slide 28 of the deck, you quite helpfully breakout UK versus US cards credit experience and coverage. There are some differences between UK and US cards in terms of impairment allowance development and where they stand [across] stage one, stage two and stage three.

So my first question is, could you talk a little bit about that and what differences are you seeing in terms of consumer behaviour? [Secondly], could you also talk about German exposure - what are you seeing there? If the forecasts for the German economy pan out the way they are, particularly around energy issues, [are you] going to take a much bigger allowance there?

Anna Cross, Group Finance Director

There are quite big differences between the US cards and the UK cards businesses. The US cards business is a partner card business. It's much younger in its derivation, if you like. We're very focused on pursuing those partner programmes where we have strong relationships with the institutional clients, such as with GAP and JetBlue.

Typically, what we see within that book is high FICO scores. It's a very high quality credit book dominated by airline relationships, so we would see it as towards the premium end. We've onboarded GAP in the current quarter. GAP is a retail portfolio. They tend to be different in nature - smaller ticket items, normally a slightly different risk profile. But GAP as a book is very high quality - if you look at what happened to the FICO scores after that integration, you'll see that it's not really moved, which tells you how high quality it is.

So that's the US cards market. I guess what we're seeing there is good purchase growth, but very high repayments and some balance growth. But in the US, I guess because the rewards programmes are very generous, we do see customers using their cards probably more so than we do in the UK.

In the UK, cards balances have dropped sharply during COVID. That's left us with a smaller book, but a book which is better in terms of its risk profile. The UK cards book, given our market share in the UK, is much more representative of the customer demographic as a whole.

The reason that we've seen [balances] fall away is that because rewards programmes are simply not as generous [in the UK]. People tend to use the cards more as a borrowing mechanism rather than just a spending mechanism. Our spending behaviours changed through COVID, so we've seen those balances fall.

You'll see on both books fairly high levels of coverage. The one that I particularly look at is stage two coverage, so those are customers who we may have seen a degree of change in their behaviour. It may not be a concern for us if, for example, they start spending more on their cards. Your probability at default will go up just because you're spending more. So we're very focused on that cohort and you can see that the coverage levels on those two in particular are very high. 26% in the UK and 33% in the US.

In terms of Germany, it's a very mature portfolio. We feel that we have provided for it adequately. There are no concerning signs in the customer behaviour at this point in time. The story is not really any different to the UK or the US in terms of customer behaviour. So there's nothing specifically I would call out, but I do recognise the deeper economic potential stress that there is in Germany, and therefore we're very watchful.

Dan David, Autonomous

I've got three [questions]. The first one's a bit more broad. Just looking at your CIB loan book, you've seen particularly strong growth. I'm just wondering if you can give us a bit of background and specific drivers of growth, certain sectors or geographies, just what might be making you stand out versus some of your peers?

The other two are more focused on capital. With regards to your capital target of 13 to 14%, looking longer term, should we add the 1% CCYB to that? The reason why I ask is that the lower end of that looks quite skinny against the minimum requirement compared to peers.

And then secondly, just focusing on AT1 in a bit more detail. Looking ahead to your calls next year, I think you've got another Sterling call coming up, is it right to assume that you'd look to [refinance that]? Would you stick to the currencies at which they're issued? I hear your comments on the Tier 1 excess, could you reduce that Tier 1 headroom to facilitate a call if primary markets remain challenging in the short-term?

Anna Cross, Group Finance Director

I'll take the first part of that question and then Dan will pick up from there. So there's really two parts to the answer there. The first is £26bn up overall in wholesale lending - £14bn of that £26bn over the last six months relates to debt securities in the liquidity pool.

So it's just the way we present these things. It's probably a little difficult to disentangle that, but we can help you do that in the disclosures. So of the £26bn there's £14bn that's essentially our own liquidity pool actions.

The remaining balance is true client lending, I would say. That's concentrated on IB clients. It's investment grade clients drawing down on existing facilities. It's not a massively significant number given the scale of our balance sheet overall, but we took that as a positive sign actually of positive economic activity, and given the quality of those clients, we didn't have any concerns about it.

Dan Fairclough, Group Treasurer

In terms of the comments around the capital ratio, the 13 to 14% range was developed in contemplation of a normalisation of the [UK] CCYB, so we won't be changing that range in respect of the CCYB announcements. Obviously, the MDA formulaically will go up to 11.9%, which is obviously in the slides. That would give us headroom of 110 to 210 basis points, which we're comfortable with, and I'd probably reiterate two points that we made in the script.

Firstly, we think that there is an element of stress buffers in that stack. In the event that there was a general market downturn, we would expect the Bank of England and the PRA to take action on the CCYB. Secondly, I would just highlight the capital generative nature of the franchise, and reiterate the capital generation from this quarter in terms of AP, and also the fact that a 10% RoTE is 150 basis points of capital generation. So we are comfortable with the stated capital target range.

In terms of your comments on AT1, I don't think you should link issuance to calls directly. There's no particular need for us to refinance with Sterling. It is nice to have a component of Sterling of AT1 and particularly that's helpful for BUK, but we definitely look at it on a portfolio basis rather than specific instrument-to-instrument matching.

And yes, broadly you're right, we could reduce the AT1 percentage if we needed to, and obviously that is one of the reasons why we run a buffer. We saw that play out this quarter given the FX movement. It did bring down that ratio as a result of the Dollar strength, so we wouldn't be necessarily wedded to it but it's broadly what we target.

Anna Cross, Group Finance Director

Thank you very much for attending the call and we'll see you soon. Thank you.

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