Barclays PLC FY 2019 Results

13 February 2020

Fixed Income Results call Q&A transcript (amended in places to improve readability)

Paul Fenner, Societe Generale

I've got three very quick questions. The first on supply. From your comments, can I read that it's possible that you don't issue AT1 in 2020? Is it possible within your plan that you don't need to come with a new issue ahead of the 8% AT1 call in December? That's question number one.

Question number two on ratings. You've got a slide prioritising ratings. I'm just wondering if they are, or what specifically it is you're doing apart from everything else to improve returns and stuff to get your ratings up? The outlooks are all stable, so ostensibly it doesn't look as if anything is going to happen anytime soon. You're still well below the ratings, one or two notches depending on the rating, against your peers. I just wondered if there's something specific that you are being told you need to do? That would be great to get a sense of.

And the third quick question is on these non-step Tier 1s, there is this regulatory oddity, which is they stop counting for MREL purposes from 2021, but they still count as Tier 2. What do you think the chances are that that's allowed to last by the PRA? Because it does look weird to the uninitiated. Thanks.

Kathryn McLeland, Group Treasurer

In terms of the intentions around the breakdown of the seven to eight billion of annual issuance we'll be looking, to over the course of 2020, I think we said you could probably expect us to be visible in the primary markets across regular senior MREL, Tier 1 and Tier 2. So, you've obviously seen what's outstanding in terms of AT1 issuance is at the end of last year. We're saying you should expect us to stay around that, and as you rightly identify, we've got a security that's callable towards the end of the year.

I think the number may move a little bit in terms of percentage of total RWA, if our RWAs move up again which we've guided to for Q1 at least. We can't rule it out. We would probably anticipate coming to the market at some point for AT1, but certainly no rush, given what we've got currently in the stack. And as we've said also probably a little bit more in the form of Tier 2 than you will have seen historically.

Now, in terms of ratings, obviously the priority immediately for us was to get that Moody's reversal of their downgrade on the holding company BPLC, which was fantastic for us to get. But we still want to do more and we still do want to move ratings with the other agencies upwards as well. And it really does genuinely come down to just continuing to deliver on the strategy. So we've been very pleased with the improvement in the financial performance of the bank, hitting our 9% returns target. You'll have seen the language we're using around the 10% target, acknowledging the relatively subdued external macroeconomic backdrop but continuing to deliver improved financial performance. Holding strong capital ratios, we believe, will lead to a positive ratings trajectory. So clearly the first step the agencies will do we understand is move from stable to positive. I think given the stable outlook which you mentioned, we're not anticipating it will be something that's near term, but we are hoping to get positive moves over the medium term for us.

And then in terms of the regulatory treatment, it may make sense just to briefly touch upon the €4.75%, which you identified does qualify as Tier 1 for some time and then Tier 2. And just as a reminder for the benefit of everybody on this call, in making that non-call decision we applied our longstanding test of economics in the round. And so, that means looking at the economics of the refinancing spread at the back end. We look at the FX impact for non-Sterling equity securities. We look at the impact on the broader liability profile as well. And so, certainly one element in addition to that was this regulatory treatment. And when you compare refinancing costs, we looked at both the Tier 1 and the Tier 2 economics. We've looked also clearly at how the Bank of England thinks about legacy securities. As you know, it's a very small tail that we have maturing beyond 2022 in particular.

And lastly, one question we may get later on in the call too, Tushar referenced Libor, we also note that this is a very old security back from 2005, and so doesn't contain the fallback language. Just to give a slightly broader answer around the non-call of that €4.75% security, those were relevant.

In terms of feedback from the Bank of England around this regulatory treatment, we're not aware of any potential change in approach. So, our understanding will be that you do see Tier 1 treatment until the end of 2021, and thereafter Tier 2 treatment. And so that's probably what we'll be assuming in our future capital planning work that we do.

Robert Smalley, UBS

Shifting gears a little bit, three questions. First on liquidity, you still have pretty high LCR, certainly on an international basis. And you mentioned bringing that down a little. Quite frankly, why not a lot? Are you concerned with Brexit playing out, etc? Are there other reasons for that? And are you trying over the course of 2020 to make those holdings more efficient, increase yield through increasing duration or maybe changing the mix a little bit? That's the first question.

Second question, on UK deposit gathering platforms like Flagstone or Raisin, are you involved in that? Do you see that as the new frontier in deposit gathering? On a technical basis, is this a way to transform retail deposit gathering into wholesale deposits? Because if I'm correct, I don't think these go to the ring-fenced banks, but if I'm not, please let me know.

And my third question, just a thought or two. I don't know if you saw our Federal Reserve Vice Chairman, Quarles, comments last week about changing the G-SIB calculation to an average as opposed to an end of period calculation? And if you think that would be helpful, and what you think that would do for you?

Tushar Morzaria, Group Finance Director

Thanks Robert. I'll ask Kathryn just to cover all of them. Let me just give a brief comment on the liquidity coverage ratio. Your point is well taken in the sense that we do feel very liquid and we certainly have a Pillar 1 liquidity coverage ratio way above any regulatory minimum, that you can see in one of Kathryn's slides. Even by our individual entities, we are very liquid. That's been somewhat of a conscious choice for us. Two reasons really, one is just we had a lot of political uncertainty and liquidity is something that we put a high value on, wanting to be super liquid as we went through any potential disruptive markets.

It certainly feels in the UK more constructive or more stable possibly post the general election here, but nonetheless I'm sure there'll be some uncertainties as we go through the year, through these trade negotiations. I do think we'll probably continue to run a reasonably high LCR. Having said that, it is something we're very conscious of. Kathryn and the team do spend actually quite a lot of time trying to find a sweet spot, or something that we feel is an appropriate high level of liquidity but likewise, being very economic and balancing the economics on that. Kathryn may want to just touch on some of the things we're doing there.

On the UK deposits, I'm not that familiar with the programmes you mentioned. I won't be able to comment directly on them. Kathryn may know something more about them, otherwise I'm sure other folks in the company will be more than happy to engage, and we can put you in touch with them.

What I would say though is our consumer and indeed corporate deposit base has continued to be quite steady and just continues to grow no matter what types of new entrants or programmes or even competitor pricing that we've seen. I think some of that is just perhaps people sustain long cash and that finds its way into the system through us. And part of it, I do think that the franchise that we have with the longevity we have and the stability that we're seeing, along with some of our larger peers, is always a natural magnet for deposits going up in that direction. But I will pause there and Kathryn can cover the other points.

Kathryn McLeland

Yes, and so to add to Tushar's comments, I really haven't got too much. We've got about a £20 billion increase year on year in deposits across the group. We did grow deposits in the UK, but obviously also with the rate environment and liquidity, we aren't complacent and so we do think about potential competition. Originally there was a degree of focus around the Marcus launch when we saw it. So we think about what potential risks could be there, but we have seen our deposits grow and also be really genuinely quite sticky. So we do think they're high quality deposits. But we also think about potential rate shocks and what that might do in terms of the behaviour of those deposits.

Again, in terms of competition or in terms of other platforms, I also am not really familiar with the names you mentioned, but we would be really happy to follow up. Finally, on the Quarles comment, I haven't seen a specific reference to G-SIB. I've seen some other recent remarks around the US Central Bank policy at the end of January and into February. And obviously the G-SIB question did get a lot of discussion in Q4, but at the end of the quarter we clearly saw a very meaningful extension of liquidity by the Fed into the market which did relieve a lot of those concerns that there would be G-SIB constraints with the very large US banks, which we did not see.

So I'm not aware of the proposal around an average G-SIB calculation, but obviously we've done a lot of work thinking about potential impacts on US liquidity coming into the end of 2019, which was actually in the end, as you saw, very plentiful. We'll continue to watch it. For us, the G-SIB is not really relevant. It's more for us to be mindful of in terms of potential impacts on Dollar liquidity.

Tushar Morzaria

Yes, as you're probably aware Robert, we're in the middle of the bucket for the bucket that we sit in, so whether it's a spot measure or some form of averaging, I don't think it will make much of a difference as to where we may end up. I think Kathryn is probably right on that one.

Robert Smalley

Great, that's very helpful. And again, thanks for the call and the access to the IR team is terrific, so greatly appreciated here.

Tushar Morzaria

I'm pleased to hear that. I will certainly be passing that onto them. They'll be glad to hear that.

Lee Street, Citigroup

I've got a couple for you. Firstly, I know you had this on the call this morning, but the management buffer, the MDA headroom. You're going to be looking at running around 100 basis points now. I know you referenced the Bank of England could reduce the capital buffer, but obviously that's outside your control. My questions are why is 100 basis points the right number and how do you calibrate that? And have you also discussed that level of management buffer with the rating agencies, and can you confirm that you wouldn't expect to see any ratings impacts on your Additional Tier 1 from running at that level? That would be my first question, two parts.

And secondly, on a completely separate topic, the £4.2 billion pension benefit, can you run us practically through how that benefits the capital position of the bank today, but also for the next couple of years? Just to lay that out in terms of if you see much benefit or whether it impacts your requirements etc.

Tushar Morzaria

I think you've probably heard me talking enough about MDA buffers earlier on, so I'll hand over to Kathryn and she can add her own perspective and make some different comments.

On the pension contribution, I might cover that quickly. We were pleased with the reduction. The backdrop of this, for those of you who may not be familiar, is we had a very large defined benefit scheme in the UK as a triennial, so every three years we go through a negotiated process with the trustees of the scheme to re-strike what contributions the bank pays into the scheme, the deficit, surplus, etc. And we're pleased that the contributions that we are required to make reduced by £4.2 billion.

The benefit of those reduced contributions will be not in the first year, but next year and beyond that. It's scheduled, if you look on our slides, we've laid out what our contributions were prior to this round of triennial and the next round.

In a nutshell, what that means is it's capital accretive at the point of which the contributions are lowered. So that just gives us more capital in the company to do as we see appropriate. We return that to shareholders, invest it, use it to increase our capital ratio, and so forth. We will keep everybody informed of what our plans are around that.

Kathryn will cover this, but we reaffirmed our CET1 ratio objective of around 13.5% at least for now. But obviously if that were to change, and we're not expecting any changes, but if it were to change, having lower pension deficit reduction contributions gives us an increased level of flexibility to flex the ratio should we need to or desire to.

Kathryn, do you want to talk more about the levels?

Kathryn McLeland

Yes, as you said, Lee, there was quite a bit of focus around the MDA on the call this morning, but I guess just as a bit of a rewind, we've obviously historically put a huge amount of thought into the appropriate distance to MDAs as one of the earliest issuers of AT1 back in 2013. I think we've also been clear in terms of how we think about our capital framework with a mind to not just distance to MDAs but also enabling us to have really strong positions to accommodate stress.

And so, certainly historically we were 100 to 150 [basis points], we then increased it during a period of quite extensive restructuring for the bank, and we've brought it back. And obviously today we're sitting at a 170 basis points buffer which we think is very comfortable.

Given what we've seen at the moment in terms of this increase coming through for CCyB and the Pillar 2A offset, we still feel that around 100 basis points would be the right number for us. And that's £3 billion, I think as Tushar said this morning. And that's obviously to accommodate idiosyncratic stress. The MDA should move down in a macroeconomic stress as we've said.

And when it's idiosyncratic, again this is something that because of us thinking about MDA and putting a lot of work into it many years ago, we are very careful about getting close to MDA. So, we do put a lot of thought into calibrating the right buffer. And certainly not wanting to get close, taking management actions should we ever see any potential impact on capital for us would be something that we could do, should it be costs or other actions to make sure that we are always at a prudent level to MDA because it is important for us. Essentially as Tushar said, we feel that that is the right number for now. We'll continue to see how developments pan out, and we feel that it is an appropriate and comfortable buffer above the MDA levels.

Tushar Morzaria

Just one other thing I'll quote here, which is as Kathryn mentioned, it's just over £3 billion, just over 100 basis points. Put that into context, and you saw it on one of Kathryn's slides earlier, the conduct charge that we had going through this year, which I would put in the unexpected category, the spike in PPI, and the entire litigation charge was 56 basis points. That gives you a sense of how much 100 basis points is for us.

We certainly don't expect that kind of litigation and conduct prospectively. I think we've got the larger stuff behind us. So I think that gives us much more comfort that our capital target is appropriate. It's plenty of capacity to ensure there are no issues with getting anywhere near MDA levels for AT1 coupon restrictions or anything like that. That's something we take very seriously.

Kathryn McLeland

I should have answered your questions around ratings implications. And I think that just a general comment, the rating agencies do view our capital position. So 13.8% will certainly be a positive outcome and the target of c.13.5% should be seen as a strength and credit positive by the rating agencies. Yes, we engage with them regularly, the Debt IR team leads that engagement. I think the feedback is that the capital position we are in at the moment is certainly credit positive.

James Hyde, PGIM

Unusually for a bond investor, I've got a question on earnings and earnings capacity. I was quite interested by this word digital and I had to actually check it in the transcript. It was the word, I assume it's binary on the 10% RoTE. I ask about earnings because I think the 100bps from 150bps MDA makes earnings generation a bit more of a focus for bondholders, and also given the possibility of activist investors being an event risk for us. So the question here is digital, does that mean that it's digital between slightly improving above 9% but not getting to 10%? Or is it much more than that, it's UK having a much more unpredictable impact on earnings? Do you still fear that? Or what I've not heard from capital markets peers is are you more worried on the capital markets side? That's really my question. What is digital in this sense?

Tushar Morzaria

In terms of our profitability for the target, I would say that greater than 10% is the objective that we are still driving towards. We would like to do that in 2020. All we mentioned this morning was that we are just realistic in the environment that we find ourselves in, and particularly we're rate sensitive and with a lower and flatter yield curve, that's just going to make that a bit harder.

Nevertheless either way, we may still get it this year. Certainly it's an objective we retain for ourselves, but either way, we think we'll do meaningfully better than 9%. Now we use the word meaningfully deliberately as a qualitative, so we haven't put a specific number on there. We'll let folks draw their own conclusions on there, but we deliberately didn't use just greater than 9% or marginally greater than 9%, but meaningfully hopefully gives you a sense of the spirit in which we feel the earnings power of the company is.

In terms of tailwinds into what could drive momentum forward in our earnings from the 9% that we've already achieved in this year, I'd say that's across many parts of our businesses. One of the strengths that we feel at Barclays is that we are quite diversified, so although the rate environment in the UK isn't that helpful at the moment, we have a mortgage book that's continuing to grow. It's growing at a pace that's slightly larger than our current stock.

We talked a bit earlier about our deposit business. That continues to grow at a pace that's probably ahead of most people's expectations. We have a large business bank. We are driving forward with our wealth offering. So I think the breadth of UK business gives us some optimism there that we'll be able to navigate through most environments.

And then of course in the United States we would expect to grow our unsecured credit book. We announced a new partnership with Emirates Airlines, one of the largest international airlines. We believe they have 2 million customers in the United States. We'll look forward to partnering them on a card offering and growing that business.

Our payments business is something that we're very excited about. Our merchant acquiring platform in Europe is beginning to really take off there. We've been planning new customers across a number of European countries and making quite meaningful inroads in our market share in Europe.

Penetrating small businesses in the UK is an objective for us. We would say, given our size, probably slightly underpenetrated into the small business environment for acquiring and that's a natural strength for us.

Corporate banking and transaction banking is another area we've made great progress. We've added over 300 clients in our Euro transaction banking business. We're now a Euro clearer, so we are able to take Euro deposits and drive income from there which we have been doing.

I could go on, but I won't bore everyone on the call with all the bits of it. That gives you a sense of the momentum that we have and the platform that we have in the business, and why we feel very confident that we'll do much better than we did in 2019. And hopefully we'll get to 10% this year, but I'm just putting a dose of realism that that's probably a bit harder than we anticipated when we first set the target.

James Hyde

Is it harder because of the UK, or is it harder because of capital markets?

Tushar Morzaria

It's more the UK rate environment. So if it was a higher and upward shaped yield curve, it would certainly be accompanied by economic conditions. High and upward steep being for the right reasons, as we would have expected when we set the targets in 2017, then I think our UK business would benefit from that.

I'd say it's probably more affecting our UK business. If anything, there is a possibility and we'll see how the year goes for capital markets, and indeed the US consumer may be a bit of a tailwind. We're quite constructive on both of them.

James Hyde

Thank you. That's very useful, and also I like the comment you made about or the indication that you do look at 30 to 90 day arrears as a good lead indicator. I welcome its quarterly publication. It's certainly a statistic we like to watch.

Tushar Morzaria

Okay, you're welcome. Certainly that's something we're very focused on as well, so we appreciate that.

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