Barclays PLC H1 2023 Results

Fixed Income Conference Call Speech

Anna Cross, Group Finance Director

Daniel Fairclough, Group Treasurer

Slide 2: Anna Cross, Barclays Group Finance Director

Good afternoon everyone and welcome to the fixed income investor call for our half year 2023 results. I'm joined today by Dan Fairclough, our Group Treasurer.

Let me begin with a brief overview of our performance over the half year before speaking to a few slides on the careful positioning of risk across our portfolios. I'll then hand over to Dan for his overview of our balance sheet.

Slide 3: Performance highlights

Our Return on Tangible Equity for the quarter was 11.4%, resulting in a 13.2% return for the first half.

This is in line with our expectations, and looking ahead, we are very confident of achieving our RoTE target of above 10% for the year.

The Cost: Income Ratio was 63% for the quarter, and 60% for the half, and we continue to guide to low 60's for the full year.

Although we are still guiding to a loan loss rate of 50-60bps for the full year, we continue to see limited signs of stress across our portfolios, and this quarter the loan loss rate was 37bps.

Let me take you to slide 4 to provide further details on this.

Slide 4: Well provisioned balance sheet

We have maintained our long-standing prudent approach to provisioning, and continue to hold strong coverage levels.

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Our total impairment allowance at the quarter-end was £6.1bn, a slight decrease from £6.3bn at Q1.

We updated the baseline macroeconomic variables for modelled impairment from the full year, notably with some reduction in forecast unemployment in both the UK and US.

However, these remain more severe than the forecasts used at Q2 last year, and at the end of the quarter we retained Post-Model Adjustments for economic uncertainty of £0.3bn.

Slide 5: Reiterating FY23 loan loss rate guidance of 50-60bps

Our guidance for a Loan Loss Rate in the 50-60bps range allows for some potential credit deterioration, and seasonal effects.

The £372m charge translated into a Loan Loss Rate of 37bps.

As expected, the majority of the charge is again in Consumer Cards & Payments, and US Cards in particular.

This reflects the normalisation of delinquencies, with a seasoning effect as balances grow post-pandemic, and this includes the GAP acquisition, which is performing as we expected.

Slide 6: Long-term prudent risk positioning on our credit card portfolio

The next three slides illustrate why we are confident in our provisioning and our prudent approach to risk.

On slide 6, we've shown key coverage and delinquency metrics for our two largest unsecured books, UK and US cards.

Repayment rates in UK cards remain high across the credit spectrum, and arrears rates remain stable and very low by historical standards.

Overall we are confident that the credit quality of our UK card book has improved since 2019.

We've continued to grow US cards, in an appropriate and controlled way that is consistent with the opportunities we see there.

As we expected, delinquencies at all FICO levels have been increasing, but our risk mix has improved, with our average FICO for the book strengthening slightly since the end of 2019 to over 750, and this includes Gap.

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In addition, the proportion of the book better than 660 FICO is now 89%, compared to 86% at the end of 2019.

As we grow, we maintain strong coverage levels across both UK and US cards, notably Stage 2 coverage of around 18% and 33% respectively.

Slide 7: Resilient mortgage book with customers proactively locking in rates

Moving onto the mortgage book on slide 7, there are a number of factors that contribute to our comfort in the higher rate environment.

First, we have applied strict affordability tests since 2013, using rates above current levels.

Second, looking at the profile for refinancing maturities, the proportion of the book on 5 years and over initial fixed rates has increased materially since 2019, from 33% to 51%.

This shift delays a potential increase in rates for many borrowers, allowing them more time to mitigate the impact.

Fixed rate maturities in H2 are £17bn, and, as you can see from the chart, a significant proportion of these have already locked in rates ahead of the end of their fixed-rate term.

So our mortgage customers are taking thoughtful and appropriate action.

Third and as a credit backstop, the book is conservatively positioned from a collateral point of view, with balance-weighted Loan to Value of 52.8%.

Only 2% of mortgages which are refinancing this year and next have LTVs in excess of 85%.

Slide 8: Commercial real estate exposure is modest and well managed

Given the market-wide focus on Commercial Real Estate, we also wanted to share some more detail on the portfolio to highlight our own position.

As we have followed a prudent lending policy here for over 30 years, this is not an area of concern for Barclays.

As you can see on slide 8, commercial real estate as a proportion of our loan book is modest, at just under 5%, which is below the industry average.

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It is diversified across segments, and the weighted LTV of 49% provides significant headroom for a potential stress in prices. No individual segment has an LTV of higher than 58%.

We know that the office component has received particular attention, and for Barclays this is just £1.9bn.

Hopefully that has given you helpful colour on the portfolios in focus. As Venkat and I mentioned this morning, we have positioned our balance sheet prudently, and we believe our risk management discipline will limit credit risk downside for us if the global economy slows.

And with that, I'll hand over to Dan for the balance sheet highlights.

Slide 10: H1 23 highlights

Thanks Anna.

We ended June with a strong balance sheet, as evidenced by the metrics on the slide.

The CET1 ratio of 13.8% places us firmly at the upper end of the target range, the MREL ratio of 32.9% provides c.£12bn of headroom above our requirements, and our liquidity and funding position continues to be robust.

Let me begin with capital.

Slide 11: Strong CET1 ratio with significant headroom to MDA

Our reported CET1 position improved by 20bps to 13.8% over the quarter.

Our capital generation from profits was again strong, contributing 39bps in the quarter and 92bps over the half.

RWAs reduced by £1.5bn over the quarter driven by the appreciation in Sterling, partially offset by underling growth of credit risk RWAs.

Our MDA level at June was 11.4% and increased to 11.8% this month driven by the increase in the UK countercyclical buffer. We continue to believe that our target range of 13-14% gives ample headroom given our CET1 accretion and business flexibility in our RWAs. Our June CET1 ratio provides a 200bps buffer to the new updated MDA level.

Our capital position was supported by the results of the BoE stress test earlier this month.

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On Basel 3.1, we continue to plan for a day 1 impact at the lower end of the 5-10% RWA range. As we've mentioned before, we expect to refine our view as we receive more guidance from the PRA, most notably when their policy paper is published. We also continue to monitor international developments, which may shape the final outcome.

Slide 12: Operate with a prudent buffer to each tier of capital requirements

Turning to the next slide – which illustrates the structure of our total capital stack.

Our total capital position of 20.5% provides 370bps of headroom above the regulatory minimum. We run a prudent buffer above our requirements at all tiers to manage FX and RWA movements.

The 180bps we hold as excess in AT1s more than makes up for the modest Tier 2 volume we currently have.

This preference for AT1 over Tier 2 to date reflects Tier 1 eligibility across multiple regulatory metrics, and our ability to deploy the capital into high returning and liquid leverage balance sheet opportunities such as financing.

The deployment into liquid activities affords us flexibility in the way we manage this layer of capital, and we continually assess the commercial opportunity.

Today we announced our decision to call our USD 7.75% AT1 instrument, and the AT1 ratio would reduce to 3.5% all else equal.

As always, we made the decision to call based on our longstanding framework that considers the direct earnings implications around refinancing, the potential impact on our broader wholesale funding stack and the FX impact on redemption of non-GBP equity accounted instruments.

On legacy capital, we continue to make good progress in managing what is a very small element of our capital stack. In June we announced our intention to redeem our three discounted perpetual instruments when they come up for call this year. These instruments are no longer counted in our capital base.

Slide 13: MREL position well established

Moving onto the total MREL stack, where we hold a prudent headroom above the 29.2% requirement.

We have made good progress against our funding plan for the year, having issued £7bn in MREL eligible debt across all tiers of capital versus the c.£11bn plan we communicated at the beginning of the year.

As always, we continually evaluate our needs and should we find ourselves with a completed issuance plan versus our initial target, we may look at some further opportunistic funding if market conditions are conducive.

Slide 14: Diverse and stable franchise deposit base; total deposits stable

Moving onto deposits.

We have grown deposit balances substantially ahead of loan volumes for many years, and have a low loan to deposit ratio of 72%.

As shown on the slide, we have seen a stable level of deposits overall this quarter at £555bn, with a modest shift in the mix between consumer and corporate.

This is a trend consistent with a persistent inflationary environment where consumer cash migrates to corporates, and our diversified deposit franchise reflects this.

The shifts in BUK deposits reflect the broader trends we have observed in the industry aggregated data. Around a third of our overall consumer deposit decline is attributable to the international business, and the moves there are due to the strengthening of Sterling.

Macro and market conditions, together with the quantitative tapering programme, suggest deposit headwinds ahead, which our diversified franchise is well positioned to manage.

Slide 15: Prudently managed LCR supported by a highly liquid balance sheet

Our average LCR at 157% provided £116bn in excess of the regulatory requirement and our liquidity position has remained robust throughout the extraordinary events we witnessed in March.

We have run the LCR at an elevated level over successive years supported by excess deposits.

On the slide you can see that we show the LCR both on spot and 12-month trailing average bases. We note the industry's approach has shifted in recent years to lead with the latter, and it's our intention to align with this in future.

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Slide 16: Business strategy supported by comprehensive liquidity framework

Given recent events, liquidity metrics have naturally come under more scrutiny

Whilst the Pillar 1 LCR is the main externally disclosed short term metric, we run an extensive and rigorous framework which proactively monitors our liquidity position under multiple stress scenarios, as you can see on the slide.

These liquidity stress tests are run on a daily basis and across multiple timeframes, and with assumptions tailored to our portfolio.

This framework is constantly evolving and calibration is tailored to emerging conditions.

We also apply periodic macroeconomic stress tests, both internal and the Bank of England scenario, to our forecast liquidity metrics to ensure that we remain above minimum levels on these metrics at all times even during severe stress.

This ensures our strategy and business plan can be safely supported from a liquidity standpoint.

We continue to work with regulators on their assessment of the events in March and any changes they may seek to make to industry standards, and we believe our internal framework will position us well.

Slide 17: Structural hedge income continuing to grow

Slide 17 illustrates the importance of the structural hedge to the level and visibility of our future net interest income.

Swap rates increased sharply during Q2 to around 5%, and reinvestment rates are materially above the yield of 1% on hedges maturing this year.

As a result, gross hedge income is increasing, and over 90% of the £3.6bn expected for this year was already locked in by the half year.

We have a further £50-60bn maturing in each of 2024 and 2025 at yields between 1% and 2%.

The precise level of reinvestment will depend to some extent on customer behaviour, but the building effect of the hedge roll gives us confidence that gross income from the hedge will grow strongly in 2024 and 2025.

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Slide 18: Strong momentum with recent credit rating upgrades

Turning finally to credit ratings.

Improving our credit ratings has been a key strategic priority and we have been heavily engaged in articulating the strength of our financial profile with the credit rating agencies.

We were therefore pleased to have secured two upgrades in the first half of the year.

Moody's upgrade came in March, citing improved earnings whilst maintaining a stable risk profile. The action marked the second upgrade in just over three years.

S&P's upgrade in May also cited solid earnings, as well as the strong funding and liquidity position that we run. Their upgrade means that now all our Tier 2 debt ratings are investment grade.

The Moody's and S&P actions means that our Barclays PLC senior unsecured debt qualifies as single A composite debt under some indices.

Our aim over the medium term is for Barclays PLC senior to qualify as single A composite across all indices.

Slide 19: Daniel Fairclough

Let me conclude before handing back to Anna.

We have demonstrated the strength and resilience of our diversified business model and balance sheet over a challenging period of volatility for the sector.

We continue to be well positioned to navigate the uncertainties ahead, with our measures of capital, liquidity and funding all continuing to operate on a firm footing.

And with that, I'll hand back to Anna.

Slide 20: Q&A

Thank you Dan. We would now like to open the call for questions and I hope you have found this call helpful. Operator, please go ahead.

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