

Barclays PLC FY 2021 Results

23 February 2022

Fixed Income Results Call Q&A Transcript (amended in places to improve accuracy and readability)**Paul Fenner, Société Générale**

I've got three questions. The first is on the plan for funding, you're saying £9bn and across the spectrum, would it be fair to assume that it's going to be something like £5bn HoldCo Senior, £2bn Tier 2, £2bn AT1? Just a little bit of guide around the quantum at each level would be very helpful.

The second question is just looking at your asset quality figure, I know the outlook is all pretty benign, but the Stage 2, at around 10% or so is historically quite high, where should that end up being? Or are we at a naturally higher state of Stage 2?

And then the third question is around sanctions against Russian institutions and potentially an escalation of the size of the banks over there. How should we think about the impact on someone like Barclays of these sanctions? What does it do for you? Where does it hurt?

And in particular what is the nervousness around shutting off SWIFT? Why is that the place where no one wants the government to go - switching off SWIFT off the Russians, and what would that impact be?

Tushar Morzaria, Group Finance Director

Why don't I ask Dan to cover the funding plan and sanctions and the impact it may have on us? Why don't I quickly cover your question on asset quality and impairment staging.

I am not sure I'll be able to give you a straightforward answer on what you'd expect Stage 2 balances to be. The only thing I will say is that it's a little bit complicated where we are at the moment, because the way our models were written under IFRS 9, we didn't really have the pandemic in mind in terms of modelling credit behaviour, particularly on the consumer side. Therefore, we've had to use a series of management overlays to really adapt the model to take into account some of the unusual features of the pandemic.

It's really the speed of building into a recession and then recovering from it, and then, once in a while, you get a temporary lockdown which the models find really difficult to calibrate to. Having said that, when you take a step back and I take a look at general asset quality and the credit environment, I'd make a couple of points.

One is that the environment itself, on all our lead indicators, looks incredibly benign at the moment. If I look at delinquencies, spending patterns, customer indebtedness, affordability levels, all the lead indicators that you'd expect us to be monitoring both on the consumer side but even on the wholesale side, look as benign as we've seen.

Our watch list, when we look on the corporate side, is very low at the moment. Now of course we've got geopolitical events, we'll come onto that in a bit, and we've got issues around potentially the cost of living, rate cycle and whether it's energy bills or other forms of inflation that are coming through, so one of the things we'll spend a lot of attention on, just monitoring very closely, is affordability levels and the transmission effects on this. But at the moment, it does feel like there's quite a decent level of resiliency, at least as we see it in our assets, to any shocks.

The other final thing I'd say on the asset quality is we do look at coverage ratios in a lot of detail. One of the areas want to be conservative in the speed at which we were building our provisions, and also cautious in the pace at we release them. One measure of that would be the coverage ratios we have. If you look at our unsecured books, on the consumer side, they're still quite a bit above where they were pre-pandemic. Even on Stage 2 balances on the consumer side, I think they're running [at c.30%] in the cards business, and most of these balances aren't even past due.

Some of that is a feature of deliberate caution on our part, in terms of Omicron was still an ongoing item when we were closing the books at the year-end, and so it was appropriate for us to be cautious, but it gives you a sense that we feel very well provided at the moment against a relatively benign credit backdrop, consumer credit and wholesale credit backdrop.

Daniel Fairclough, Group Treasurer

On the funding plan, as I said, we'll be active across all tiers of capital. I won't comment on the individual make-up, but it won't be dissimilar to prior years, and the largest portion of it would certainly in Senior MREL.

On the sanctions question, there are obviously a couple of different avenues that we could be impacted by that we focus on. Firstly is the direct credit exposure that could arise, either in direct exposures or in securities form. And the second, which I think probably gets to your point about SWIFT, is where we might have a Nostro or Vostro exposures, so monies due to or from Russian banks. That could either be direct with them, or where we are using them as a clearing counterparty.

Fortunately from our perspective, we've got very limited exposure to the Russian banking sector or indeed Russia as a geography, but we're clearly keeping it under close review.

Tushar Morzaria, Group Finance Director

Yes, on Russia, you probably recall when we opened our non-core unit way back when, one of the areas or geographies that we exited was Russia at that time. And so it's just part of our geographical shape now, as Dan mentioned, we don't really have any direct exposure, and therefore even indirect exposure is fairly limited.

Lee Street, Citi

I have three questions for you today please. Firstly, you flagged no regulatory headwinds for capital after the start of this year, and you're around 14%, so I guess my question is, after accounting for growth in risk-weighted assets, are you effectively saying you're going to be distributing 100% of your earnings if you're going to manage that 13% to 14% range?

The second one, and this might be an impossible question, are you able to give your thoughts around what is the level of interest rates that you think represents the biting point where the benefit of the higher rates, the benefit of revenues, starts to become more than offset by higher and rising loan losses? Or to

put it another way, at what level do you think interest rates effectively become a hindrance or destructive to the business model?

And finally, a technical one on the Resolution Assessment Framework (RAF), what level of detail do you actually expect to publish on that? Is this a one-page summary, five pages, ten pages, 100 pages? And is it up to you, or will the Bank of England effectively dictate what you can actually publish?

Tushar Morzaria, Group Finance Director

Why don't I take the first one on distribution, and then I'll ask Dan to comment on the other two. Apart from the reg changes that we'll be putting through in the first quarter, we don't see too much on the horizon over, let's say, the next two-year time frame. We've obviously called out Basel 3.1; it remains to be seen exactly what that is. The Bank of England will publish, I guess it's a consultation, on that sometime before the end of this year. We don't know exactly when that will be, but it feels like it'll be towards the latter half of the year rather than the earlier part of the year.

And that feels like, if Europe's any guide, it's 2025 or perhaps even a bit beyond in terms of implementation. Therefore, given that there are no headwinds, I don't want to say we'll be distributing literally down to the very last basis point, because we're prudent and we're a bank, so we will always be cautious in terms of ensuring that if there are changes in market environment or business cycles that we're appropriately capitalised.

But distributing excess capital when we don't think there's a need to retain it, as a prudential matter, or indeed as a productive matter in terms of putting that capital to work is something we would look to get back into shareholders' hands. But I think you've seen, hopefully, in the past, us operating fairly prudently, well above any minimum level as we would define it, and obviously well above any regulatory minimum.

I guess the message I'd give is we will be a distributor of capital back to investors, but always ensuring that our stack remains appropriately prudent depending on where we are in the business cycle.

Daniel Fairclough, Group Treasurer

On the interest rate point, we've disclosed the potential impact of a 25 basis point rate move, so clearly we've got good positive gearing to higher interest rates. In terms of when would we begin to see an impact in credit, and obviously that would need to be an impact in credit beyond what we're already provisioned for, the point I'd probably make is just that we do stress test for materially higher interest rates at origination.

We do that in particular on mortgages where we will be stressing up to interest rates at 6%, and obviously there's the benefit of the LTV protection there. Hard to give a specific answer but I do think we're pretty well protected and we stress for that pretty thoroughly at the point of origination.

In terms of the legacy capital publication, we're in close discussions with the Bank of England on that now, and obviously we'll be guided by them a little bit as to how much disclosure we put in that. And obviously when we can say more on it, we will.

Corinne Cunningham, Autonomous

One of them was actually also on the RAF, I think most of it you've just answered, but have you already had your discussion in terms of what counts, what doesn't count, and is it just literally the what's published part that you're discussing? Or are there still meaningful and material conversations about exactly how your Resolution Framework would work? Are they still ongoing?

And then, a UK bank call wouldn't be complete without a legacy question. We don't have a lot of questions for your book, but just looking back, I wondered if the reason for calling the Sterling DisCo, was the rationale for that largely LIBOR?

Daniel Fairclough, Group Treasurer

The resolvability dialogue with the Bank of England is quite a broad topic, so it's not just legacy security, it covers capabilities in funding and resolutions, capabilities in value and resolution, amongst other things. It's a pretty broad-ranging topic.

We've submitted a self-assessment to them and we've had very detailed interviews with them, so I don't think there's too much more engagement for us to have there really. It's now just about finalising the publications for June.

In terms of the Sterling call, that was an instrument that lost own funds capital eligibility, and it was economic for us to call, so they were the two main drivers for that security. Obviously, as we've said before, we'll look at all securities on a case-by-case basis.

Robert Smalley, UBS

A couple of questions on credit cards, and then one on liquidity.

Could you talk about payment rates? Are we starting to see that turning into revolving balances? Differences in the UK versus the US? On the earlier call, there was discussion in the US about the acquisition of debt portfolio, and is there going to be more divergence in strategy [between] US [and] UK - US more targeted at buying portfolios, UK more broad-based? Where do you see credit normalising in the cards space?

And then on liquidity, obviously you're carrying a lot of excess liquidity, you've also got COVID reserves, are you looking to deploy that excess liquidity as rates are going up? Do you think that's reflected in perception of where your net interest margin is going for 2022?

Tushar Morzaria, Group Finance Director

Why don't I cover the point on the cards questions, and I'll hand over to Dan on liquidity. On credit cards, in terms of payment rates, they were certainly more elevated than we'd hoped for, although not wholly surprising to us over the course of last year.

It's probably a little bit too early to tell, because of the seasonal effects we currently have going on at the moment off the back of the holiday spending period over Christmas and New Year, and we're not even two months into this year, so it's a little bit hard to tell, but generally speaking, I think the ingredients are there for revolving balances to grow, particularly in the US.

We've seen very good card opening metrics for our cards in the US. We've seen very good utilisation metrics. We certainly haven't seen payment rates increasing, although I will just caveat that with the fact that, seasonally, we'll have to get through another month or two to know for sure. But we are reasonably optimistic that we're getting to revolving balances, certainly in the US, and in the UK as well.

In terms of the strategy there, yes, there is a divergence in the sense that in the US we are very focused on partnerships. The purpose of the Gap portfolio is really to diversify into... We were very heavy on the travel and hospitality, leisure sector in the United States, with respective partners, and this takes us into retail.

If you look at it in really simple terms, half the market in the US is in the hospitality, leisure, travel space, and the other half is in retail. So our first foray into retail is almost a brand new market for us. It also takes us into white label or store cards, private label cards, which is a very different product, a different credit proposition, different socioeconomic demographics we're dealing with. So we think of that as literally almost a new business line in and of itself, so they are quite divergent.

In the UK, because of the lack of interchange, you don't really get the opportunity to run a partnership business in the same way that you can in the US, so we see that more as a Barclays-branded product rather than issuing cards on behalf of partners.

In terms of impairment normalisation, pre-COVID, I think both businesses coincidentally were running about 3% loan loss reserves. I would think, earlier on in the credit cycle, and probably credit feels still benign, notwithstanding the questions from earlier with potential inflation shocks and rate rises and stuff like that, but even then I would expect it to trend below 3% for some time actually. At some point, as the cycle matures, in seasons that may build back up to 3%, but I think it will take some time before we get to 3% loan loss rates this time round.

Daniel Fairclough, Group Treasurer

I completely agree, we've got very high levels of liquidity right now. I would point out that it's very low-cost liquidity, both in terms of the deposit franchise that we've got, and obviously the TFS and the draws that we've made in the year. It's certainly available and ready to be deployed into the business, so that's something we would like to do, subject to the client demand.

That's going to be most impactful in the BUK sector in terms of actual impact on NIM. As Tushar alluded to this morning, there is some expectation of growth in those NIM forecasts, particularly in the secured space, given the likely activity that we'll see in the remortgage market, and some expected normalisation of the unsecured card balances. But yes, certainly that liquidity remains available to be deployed.

Alvaro Ruiz de Aldo, Morgan Stanley

I have two questions. The first one I think is quite difficult to answer, but I'll try my best. It's about the Resolvability Assessment Framework. Given that the deadline is June and you already had all the more relevant conversations with the regulator, do we expect any kind of surprise in terms of not only legacy instruments but also the structure of the bank? I just want to see if we can receive any feeling about any big changes once the document is published.

The second one is about legacy, and if you can give us an update regarding the remaining disco securities?

Tushar Morzaria, Group Finance Director

Why don't I talk about the Resolvability Assessment Framework, and I'll ask Dan to talk about the legacy instruments, including the DisCos.

You're right, it's a tricky question to answer. We are in close dialogue with the PRA. We've been in close dialogue for some time, and they've obviously looked at our Resolvability Assessment Framework. They've looked at the work we've done, the assurances that we've taken, the governance that we've had, and the substantive nature of the work that's completed - whether that's funding resolution, evaluation resolution, operational continuity, contract continuity, stays and what have you, all of the eight objectives or impediments that they see to resolvability.

Where we are at the moment is we are sharing with them our final work. They've given us feedback on our draft work, so we've received feedback from them. No surprises there, so we've taken on that feedback and addressed it. We're sharing that work with them.

The next stage will be to share our own disclosures with them, and we expect to receive feedback on that. I don't think the Bank of England is interested in creating any surprises here, either at the point of disclosure, or in terms of what to expect between banks' own assessments of their own resolvability and their own assessment. But it's something that we'll know when we get them.

At the moment, I would say it all feels like it's going to plan, and there's a very healthy two-way dialogue to be transparent in our communications between each other in terms of expectations. But there's probably not much more than that I can say at this stage.

Daniel Fairclough, Group Treasurer

At the risk of repeating myself a little bit, we're very comfortable with our legacy capital position. It's obviously a small number of securities outstanding, we've got no legacy securities outstanding at the BPLC holding company, so we do feel pretty comfortable.

In terms of the DisCos specifically, as we've disclosed in the Pillar 3 report, these are owned funds until 2025 in our view, so we don't need to do anything specifically on them. Obviously we won't comment on future calls, but we'll look at this security portfolio on a case-by-case basis as we go.

Tushar Morzaria, Group Finance Director

Thank you very much all. I hope you found the call helpful. With that, I'll close the call, thank you.

Important Notice

The terms Barclays or Group refer to Barclays PLC together with its subsidiaries. The information, statements and opinions contained in this presentation do not constitute a public offer under any applicable legislation, an offer to sell or solicitation of any offer to buy any securities or financial instruments, or any advice or recommendation with respect to such securities or other financial instruments.

Information relating to:

- regulatory capital, leverage, liquidity and resolution is based on Barclays' interpretation of applicable rules and regulations as currently in force and implemented in the UK, including, but not limited to, CRD IV (as amended by CRD V applicable as at the reporting date) and CRR (as amended by CRR II applicable as at the reporting date) texts and any applicable delegated acts, implementing acts or technical standards and as such rules and regulations form part of UK law pursuant to the EU (Withdrawal) Act 2018, subject to the temporary transitional powers (TTP) available to UK regulators to delay or phase-in on-shoring changes to UK regulatory requirements between 31 December 2020 and 31 March 2022. Throughout the TTP period, the Bank of England and the PRA are expected to review the UK legislation framework and any disclosures made by the Group will be subject to any resulting guidance. All such regulatory requirements are subject to change. References herein to 'CRR as amended by CRR II' mean, unless otherwise specified, CRR as amended by CRR II, as it forms part of UK law pursuant to the European Union (Withdrawal) Act 2018 and as amended by the Financial Services Act 2021 and subject to the TTP, as at the applicable reporting date;
- MREL is based on Barclays' understanding of the Bank of England's policy statement on "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)" published in December 2021, updating the Bank of England's June 2018 policy statement, and its MREL requirements communicated to Barclays by the Bank of England. Binding future MREL requirements remain subject to change including at the conclusion of the transitional period, as determined by the Bank of England, taking into account a number of factors as described in the policy, along with international developments. The Pillar 2A requirement is also subject to at least annual review;
- future regulatory capital, liquidity, funding and/or MREL, including forward-looking illustrations, are provided for illustrative purposes only and are not forecasts of Barclays' results of operations or capital position or otherwise. Illustrations regarding the capital flight path, end-state capital evolution and expectations and MREL build are based on certain assumptions applicable at the date of publication only which cannot be assured and are subject to change.

Forward-looking Statements

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and Section 27A of the US Securities Act of 1933, as amended, with respect to the Group. Barclays cautions readers that no forward-looking statement is a guarantee of future performance and that actual results or other financial condition or performance measures could differ materially from those contained in the forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'may', 'will', 'seek', 'continue', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'achieve' or other words of similar meaning. Forward-looking statements can be made in writing but also may be made verbally by members of the management of the Group (including, without limitation, during management presentations to financial analysts) in connection with this document. Examples of forward-looking statements include, among others, statements or guidance regarding or relating to the Group's future financial position, income growth, assets, impairment charges, provisions, business strategy, capital, leverage and other regulatory ratios, capital distributions (including dividend pay-out ratios and expected payment strategies), projected levels of growth in the banking and financial markets, projected costs or savings, any commitments and targets (including, without limitation, environmental, social and governance (ESG) commitments and targets), estimates of capital expenditures, plans and objectives for future operations, projected employee numbers, IFRS impacts and other statements that are not historical fact. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. The forward-looking statements speak only as at the date on which they are made. Forward-looking statements may be affected by a number of factors, including, without limitation: changes in legislation, the development of standards and interpretations under IFRS, including evolving practices with regard to the interpretation and application of accounting and regulatory standards, emerging and developing ESG reporting standards, the outcome of current and future legal proceedings and regulatory investigations, future levels of conduct provisions, the policies and actions of governmental and regulatory authorities, the Group's ability along with governments and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, environmental, social and geopolitical risks, and the impact of competition. In addition, factors including (but not limited to) the following may have an effect: capital, leverage and other regulatory rules applicable to past, current and future periods; UK, US, Eurozone and global macroeconomic and business conditions; the effects of any volatility in credit markets; market related risks such as changes in interest rates and foreign exchange rates; effects of changes in valuation of credit market exposures; changes in valuation of issued securities; volatility in capital markets; changes in credit ratings of any entity within the Group or any securities issued by such entities; direct and indirect impacts of the coronavirus (COVID-19) pandemic; instability as a result of the UK's exit from the European Union ("EU"), the effects of the EU-UK Trade and Cooperation Agreement and the disruption that may subsequently result in the UK and globally; the risk of cyber-attacks, information or security breaches or technology failures on the Group's reputation, business or operations; and the success of future acquisitions, disposals and other strategic transactions. A number of these influences and factors are beyond the Group's control. As a result, the Group's actual financial position, future results, capital distributions, capital, leverage or other regulatory ratios or other financial and non-financial metrics or performance measures or ability to meet commitments and targets may differ materially from the statements or guidance set forth in the Group's forward-looking statements. Additional risks and factors which may impact the Group's future financial condition and performance are identified in Barclays PLC's filings with the SEC (including, without limitation, Barclays PLC's Annual Report on Form 20-F for the fiscal year ended 31 December 2021), which are available on the SEC's website at www.sec.gov.

Subject to Barclays' obligations under the applicable laws and regulations of any relevant jurisdiction, (including, without limitation, the UK and the US), in relation to disclosure and ongoing information, we undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Non-IFRS Performance Measures

Barclays management believes that the non-IFRS performance measures included in this document provide valuable information to the readers of the financial statements as they enable the reader to identify a more consistent basis for comparing the businesses' performance between financial periods and provide more detail concerning the elements of performance which the managers of these businesses are most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by Barclays management. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. Non-IFRS performance measures are defined and reconciliations are available on our results announcement for the period ended 31 December 2021.