Barclays PLC Q2 2026 Results

Fixed Income Conference Call Q&A Transcript

(Amended in places to improve accuracy and readability)

Lee Street, Citi

I have three questions, please. Firstly, just looking at your business mix, you obviously allocate most capital to the investment bank that make high returns in the other divisions. So, my question is, would it make sense to look for further sort of inorganic growth opportunities in the high returning business models to grow those further? That would be my first question.

Secondly, on the Bank of England proposals in the Financial Stability Report, what would it take for you to think about changing your management buffer and potentially bring that lower given the idea of releasable buffers?

And then finally, you mentioned the international alignment of capital requirements and talking to [the Bank of England] about that. In your view for Barclays, where do you think the biggest gaps are where Barclays [is] most disadvantaged from your perspective?

Anna Cross, Group Finance Director

In terms of the balance of capital across the group and the relative returns, as you can see, we've been really focused on improving the IB returns, also [with] capital and cost discipline. And we're happy with the structural improvement in returns, and we're not done yet. So, we expect those to continue to edge upwards.

On the sort of second part of your question, which is really around, should we pursue inorganic growth elsewhere? We feel like we are pursuing the right pace of organic growth.

We've deployed £25 billion of the around £30 billion that we expect to do [between 2024-2026] in RWAs so far in the UK businesses. And we're growing [lending] at around 5% a year, and we think that's the right rate of growth for organic growth underpinned by the capabilities that we're putting down across both retail and corporate banking.

When it comes to inorganic opportunities, the bar is very high for us, so we would want something that would deliver either additional capability or additional volumes. So, Kensington, for example, was capability. Tesco is about volume. When we look at the returns... on any acquisition, we would be considering that relative to the returns on the buyback. So, we're very focused on the capital hierarchy that we have, which is one, regulatory compliance at all times, number two, distributions, [and number three], investment in the business. So that, again, would be a high bar.

And then thirdly, we would look at the type of business model that we saw in front of us. And specifically, you'll have seen that we are very much leaning towards digital opportunities. all those with a digital basis to them because we feel those business models have the greatest longevity.

So of course, we will continue to look at inorganic opportunities but it's an organic plan. So, expect us to keep plugging away around 5% [lending CAGR] a year. And then to sort of hub tuck-ins as and when we see all those factors being satisfied.

In terms of your second question, we've been fairly clear that you should expect us to operate around the top end of our range until we get regulatory clarity, and we expect to get that in two chunks.

The first, Pillar 2A clarity around Basel 3.1 implementation, which we should receive at some point at the back end of this year. And then secondly, we would expect to get a bit more Pillar 2A clarity when we land our A-IRB model for US cards, which we would expect to be in the second half of next year.

Those are the points at which we would reexamine the range within which we operate. Obviously, it's one input, and we would be considering other factors at the same time.

Dan Fairclough, Group Treasurer

Just to add a little bit on that second question. I mean there's nothing in the FSR proposals that would change the way that we think about offering Barclays. So, the things that Anna referred to are obviously mechanical reductions in the MDA requirements.

Obviously, we'll watch as it unfolds on the concept of a single usable buffer, but that feels like that's got quite a long way to run. And obviously, [it] will be a long international discussion.

Third question I think you asked was... how do we think about international competitiveness? So, this is an important point for us in terms of our regulatory engagement. There were some positives that came out of the PRA Basel package on [Market Risk] IMA. We felt that they have listened to the industry in a number of areas.

And then there are a number of helpful points, particularly around simplification. But more broadly, we think that there is more to be done here, both to promote growth, but also to make sure that there's a level playing field. A couple of things that we would call out is the approach to models broadly, a specification around the US models and the rest of the Basel package, the standardised Basel package more broadly, where we feel there's more to be done.

Daniel David, Autonomous

I've got three questions. The first two are kind of related. On the leverage changes, which were more targeted at the OSIIs, did you feel a bit harshly treated as a GSIB? I guess did you expect any changes to allow UK GSIBs to become more competitive in the global context. I guess when I look at what's changed, it's mainly OSIIs, as I say.

And then I guess related to that, as QT progresses, are you seeing any notable impact on your balance sheet and just what you can extend to certain businesses as leverage maybe becomes a little bit more binding as Central Bank reserves dissipate?

Then the final one, Dan, you just mentioned that FPC vision of a single releasable buffer. I guess what stands out in that is that Pillar 2G could become part of the MDA? Do you think that's where we're headed longer term? And interested to hear your views.

And then just finally, all the best in the new role Dan. Thank you.

Dan Fairclough, Group Treasurer

The leverage proposals were obviously a little bit disappointing in terms of the aggregate impact. I don't think it was specifically around the OSII point.

Obviously, the Bank of England was using the flexibility that they have within the Basel remit, and one of those was obviously on the CCyB. So really, the reason why some banks got more benefit than others was because the CCyB where the UK obviously is the largest component, was a bigger portion of their capital stack. So, I think it was more

about what room for manoeuvre did they feel that they had rather than necessarily targeted at OSIIs versus GSIBs specifically. Obviously, there's more to come from the Bank of England overall on this reform package.

The second question on QT is interesting. So, we haven't really noticed any particular change in the way that we manage the balance sheet. But it's obviously interesting that we do seem to be moving closer to the preferred minimum reserve level that the Bank of England have cited I think another interesting observation for the market, is just the fact that we are seeing a significant uptick in the use of the Bank of England repo reserve scheme. So that does suggest that other banks in particular are positioning around those reserves scarcities but not impacting us particularly directly.

And then your final question, I think it's hard to say where this is going to go because I think the debate is really at the beginning. Clearly, the financial stability report, again, put out a signal that it's a topic that the Bank of England wants to explore, but we still haven't seen any detail on it. So, I expect we will get more of that as we move into both on the Bank of England and then potentially internationally.

Robert Smalley, MacKay Shields

Thanks very much for doing the call. First, in terms of the IB, the performance and the balance sheet growth, we've seen your domestic competitors really grow their balance sheets and grow a number of different businesses over the past 6 to 12 months.

At the same time, you've said that you're going to keep the capital commitment and IB balance sheet pretty much stable. So do you anticipate a growing gap between you and some of your global competitors here as a result of just the size of the businesses going forward? And is your relative muted issuance versus some of, say, the large U.S. banks who need to fund a growing IB balance sheet indicative of this as well?

Secondly, you mentioned on the other call earlier this morning, the IPO business was mentioned [with regards to] your participation in it. At the same time, you're also looking to grow your wealth management business. One of the American banks had given some data around employees of IPO'ed companies becoming wealth management clients at their bank. Do you have any data or at least some colour around conversions from where you participated in IPOs and getting those people into the Barclays Wealth Management platform?

And then third, just on domestic deposits. I know there's been discussion around this already. But there is a lot of competition. You've done a good job in increasing deposits overall. But where does that go from here? And will you need to issue more out of the OpCo in the institutional market.

Anna Cross, Group Finance Director

On the U.S. banks, our strategy is well set out here, and it's one of discipline. And what we mean by that is not only running the business for returns but with a risk posture that's appropriate for the environment. And so that's really what you see us doing here. We're extending a bit of balance sheet, both in terms of RWA, more significantly in leverage but we're doing so as a means to an end to ensure that we're getting a commensurate increase in revenue over RWAs, which you can see in the quarter, but also that we manage the risk well.

So, you'll note the VAR has not really changed, no trading loss days in the quarter. That's really important to us that we manage this business within disciplined boundaries. We feel like we are making good progress.

So, we're happy with its structural progress in terms of the consistency of that revenue over RWAs and the consistency of its costs. So, we wouldn't recognize that we feel like we're falling behind our expectations at all.

And from here, we do think that there are more opportunities both to optimize within the capital framework that we've given it, but also that much of the growth areas that we're very focused on within this business do not require balance sheet.

So, M&A, ECM, the financing business, which is certainly leverage heavy, but not RWA-heavy, and most importantly, the International Corporate Bank. And the other good part of that is, clearly, they are businesses which are more recurring, more fee-based and really address something that Lee was pointing to in his initial question, which is about the lower than group ROTE in that part of the business.

To your second question, we actually believe that our wealth opportunity is much wider than that. But just to remind you that our wealth business is a UK focused business. And so there may be somewhat of a geographical gap between where we do our IPO activity and where we do our wealth activity. Clearly, our Private Bank is more of an international factor, but the wealth opportunity is very much UK based and we're really focused on the 400,000 clients that we have in [Barclays] Premier that we believe would benefit from that advice.

So, think of it as probably a bit of a narrower geographical focus, Rob, but one that is much wider in terms of the pool of clients that we're going after.

Dan Fairclough, Group Treasurer

So, UK deposits, obviously, that primarily relates to our ring-fenced bank in the UK. That entity has a very comfortable funding position. But if we felt we needed to do more funding, we would likely do that in secured form and covered.

So, very unlikely that we would do any unsecured issuance from the UK [ringfenced bank]. Clearly, we have issued, as I said in the prepared remarks, at the OpCo level for Barclays Bank PLC, which is a non-ringfenced bank, but that's just one of a broad range of funding sources that we have available. Obviously, we raise international deposits there. And we have other wholesale funding instruments across the markets.

Violetta Baraboi, Société Générale

Just one question actually around funding. 2027 has been mentioned around prefunding. And I would like to understand a little bit more of how I should be thinking about the quantum of that prefunding and within that, what part of the capital structure? So, are we talking more about senior HoldCo issuances to prefund your upcoming dollar maturities early January? Or are you thinking about a little bit of sub debt?

And then also a question on the AT1. You issued, obviously, the Australian Dollar. I was trying to understand whether this is a sort of a one-off transaction? Or are you really thinking about being more present in the market going forward?

Dan Fairclough, Group Treasurer

We generally don't give specific guidance on prefunding, and we don't have a fully formed view on what prefunding we would do. So, we will really respond there to market conditions and where we see relative value. So, not too much further to add on that at this point.

In terms of the AT1, and obviously, when we come to market, we will look at the broad set of opportunities available to us. Obviously, we have historically focused predominantly on Dollars and Sterling. That's where the market is deepest for us. but we will continue to look at opportunities elsewhere where they're attractive, they provide diversification, and where the pricing is right. So, we've issued in Singapore Dollar as well in the past. We'll be opportunistic in where we go in addition to Dollars and Sterling.

Pranjal Vaish, Credit Agricole

I saw that your LCR declined from 170% to around 158% at the end of this quarter. compared to the end of last year. Can you please walk us through the key drivers behind this decline, perhaps if you're anticipating any material outflows in the near term? And also if you can share your target operating range for the LCR, if you share that?

And the second question would be on the SRTs. I noticed that you had around £700 million benefit this quarter. If you can provide any forward guidance on your SRT pipeline, specifically how much RWA reduction or in terms of CET1 benefit you plan to achieve through SRTs in the coming months or in FY26?

Dan Fairclough, Group Treasurer

The LCR has declined over the past 12 months or so. This firstly relates to something that we called out probably 12 months ago now, which was a change of methodology within our prime financing business, which moved to a more conservative approach.

We report the LCR on a 12-month rolling basis. So that has just taken time to come through the ratio. That was the mechanical effects that we disclosed 12 months ago. And obviously, it's been quite an active quarter in terms of Investment Bank activity and financing, in particular. So we've obviously leaned into that and use some of our funding to support those clients but I wouldn't call anything else out, particularly in terms of where the LCR ratio will go from here.

On SRT, we've talked about the broad scope of our SRT activity in the past. The vast majority of our SRT is in the Colonnade program, which provides protection on our corporate loans, that program is largely scaled. I wouldn't call out material changes in that from a volume perspective.

And then the rest of the activity that we have is relatively small. Some mortgages and some consumer loans. So, I wouldn't call out too much in terms of the forward pipeline. Largely, that will be replacing the transactions as they come up for amortization.

I would say that we have issued a little bit more in the last quarter. We've just stepped into some of the upcoming amortization that we would have from those programs. It's very consistent with what we've done on the overall MREL issuance. We've just got ahead of refinancings.

Anna Cross, Group Finance Director

The only thing I would add to that is just certainly on the BUK side, and I think that's the transaction that you are referring to. There, what you've seen us do is a series of transactions that really allow us to optimize the balance sheet and what we're retaining.

And they are one-by-one commercial decisions that we make. And I contrast that as Dan says, with the programmatic nature of Colonnade which is largely at scale.

Thank you for those questions. So, I'd just like to thank you all for your interest in Barclays and for joining us on the call today.

And whilst he really doesn't want me to do this, I'm going to say thank you to Dan for his 25 years in Barclays. For those of you who don't know, Dan is moving to Australia with his family. So Violetta, you may not see Barclays presence in the Aussie market, but you're definitely going to see Dan down under! And I think you'll all join me in thanking him for his stewardship and wishing him luck on the other side of the world. I suspect this is not the last time we will see Dan Fairclough.

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