Berenberg Banks & Diversified Financials IR Speed Dating Event Q&A

9 January 2024

Q&A with Marina Shchukina

Pete Richardson, Berenberg

Briefly reiterate any financial guidance and recent events that may be relevant to this guidance.

Marina Shchukina, Head of Investor Relations

Hopefully you would have seen that we will be doing an Investor Update on 20th February this year, alongside our FY23 results. This will be an in person event at our Canary Wharf Office in London. We will send the registration link within a week or so and would encourage you all to attend.

Now turning to what we actually hope to say at the event. As you would have heard from our management at Q3 we will look to define who we are as an organisation, showcase where we think we have a right to win, spell out how we're going to allocate capital and of course give an update to our financial targets across a number of metrics including RoTE, costs as well as shareholder distributions.

As part of this exercise, we have flagged that in Q4 23, we will be taking a material charge for "structural cost actions". Now, to make it absolutely clear, we're not embarking on a multi-year restructuring here, that is not our intention. We are talking about specific actions that relate to 3 things, 1) people, 2) property and 3) infrastructure. At the point of FY results we will provide information to you on overall quantum, split by division and associated payback. I should also say that these actions are very much linked to our thinking about how to enhance future returns of the business.

Excluding such structural cost actions, we continue to target a cost: income ratio in the low 60s and a RoTE of greater than 10% in 2023. As for Q4 shareholder distributions, we were deliberately positioned at the top end of our 13-14% CET1 range at Q3. We have an increasing bias towards distributions, as evidenced in our recent quarters. At H1 23, we announced a buyback of £750m, which on top of the 2.7p dividend was a total distribution of £1.2bn, up 30% YoY. We continue to see buybacks as a very attractive way of returning capital to shareholders.

Turning to NIM in our UK retail division, Barclays UK, we guided to a FY23 range of 3.05% to 3.10%. NIM, as you are well aware, is sensitive to deposit levels and mix trends but to help frame the guidance, we said, if we see similar deposit trends in Q4 to Q3, FY23 NIM will be towards the top end of this range.

And finally on impairment, we've guided to a 50-60bps loan loss rate through the cycle. At Q3, the YTD Loan Loss Rate was 43bps, below the range. In Q4, we called out that we tend to see seasonally slightly higher impairments in US cards because the shape of consumer spending in the US is very holiday-driven.

Pete Richardson

What are the margin/pricing and volume trends in your core lines of business?

Marina Shchukina

In Barclays UK, NIM is principally being impacted by deposits, structural hedge, and mortgage dynamics.

In deposits, broad trends remain. Customers continue to seek higher rates and move money to term deposits and current account deposit levels continue to fall but at a less aggressive pace than Q3.

On the structural hedge, we continue to see positive impact. As a reminder, two thirds of the gross hedge income sits within Barclays UK. Level of swap rates is down from the highs during the year with the 5 year GBP swap rate at c.3.7%, but still considerably in excess of the maturing rates, which are between

1% and 1.5% over the next couple of years. We have between £50-60bn maturing in 24 and 25 – the amount of the product hedge we roll will be affected to some extent by depositor behaviour. However, rolling the equity part of the structural hedge alone would give us hedge income in 2024 that is higher than 2023.

And finally mortgages, the market remains competitive, and is still very focused on refinancing. But we are seeing a bit of a normalisation within mortgage margins, which benefit from the lower swap rates. What is maturing in 2024 and beyond is a lower margin than what's maturing in 2023. So the back book to front book churn impact should lessen. Now looking into 2024, whilst we haven't yet given formal guidance, we expect a tailwind from the structural hedge, a more neutral impact from mortgage margins and a headwind from deposit trends.

Moving on to US cards, we continue to grow balances in a disciplined way, with end net receivables at c.$30bn at Q3 23, up 11% yoy. In UK cards, we are seeing really strong engagement with the products, with balances up 7% YoY to £9.6bn at Q3. For us this remains a focus for the future. At the moment, interest earning lending remains subdued - customers are spending, but repayment levels remain really high reflecting the economic backdrop. Our expectation is that once we get beyond current economic uncertainty and start to see more consistent, positive economic data in the UK, we would expect to see loan growth across a number of different products, including in SME and UK Cards. SME demand has been muted due to bounce back loans taken during the pandemic and corporate demand has been muted given our clients have strong deposits.

Finally, in the CIB, as we and peers have indicated, the Q4 market environment has been challenging. It's been similar to what we experienced in Q2 and Q3 - not quite enough volatility for Markets, but a little too much for Banking. For Markets, VIX was lower in Q4 23 vs Q4 22, which for us was a record Q4, given positive impact by the volatility associated with the mini budget in the UK. In Banking, you can see the level of activity from Dealogic data, very similar to what we've seen in the prior few quarters, but we hope the recovery will be forthcoming in 2024. On the Corporate side, both lending and transaction banking have benefitted significantly from liquidity pool income. However, in the current rate environment, the kind of disposal income that you get from the liquidity pool is lower and we've seen that trend continue in Q4.

Pete Richardson

What are the key risks that could plausibly alter your strategy and outlook? What could mitigate these risks?

Marina Shchukina

The key risk we see is significant unforeseen deterioration in the macro, especially the rate of unemployment, but we believe we have a well provisioned balance sheet and long term prudent risk positioning. We have the benefit of low levels of impairment, particularly in UK cards, but also more broadly, across the corporate and SME books. BUK LLR has been running materially below historical levels in 2023, with a YTD LLR of 16bps at Q3. Customers have been keen to continue to deleverage across mortgages and cards. The positive side is that customers in the UK are weathering what would otherwise be a difficult affordability period extremely well. We stress affordability on all products before we lend. And we have been doing that on mortgages, for example, since 2013, stress testing mortgage customers to an interest rate of at least 6.6% prior to the latest rates rise cycle. We are seeing the benefit of that now. Our loan loss rate year-to-date has been below the 50-60bps through the cycle guidance that we've given. There is nothing that we see right now that would really, significantly change what we are currently experiencing.

Elsewhere, a number of themes are likely to dominate 2024. In no particular order the pathway for inflation and policy maker decisions on interest rates, geopolitical tensions and a number of upcoming pivotal elections including at home in the UK and the US.

Answering your question on how we think we can mitigate such risks we have shown over the last 3 years that the diversification of the firm, both across divisions – e.g. Retail vs Wholesale; as well as within divisions – Banking vs Markets, has allowed us to navigate a number of very different macro scenarios successfully.

Pete Richardson

What part of your business model or investment thesis do you think the market still misunderstands or undervalues?

Marina Shchukina

Given Barclays trades on 0.45x 2024 price/tangible book, there are arguably multiple aspects of the investment case that are currently under appreciated, but we also recognise there is more that we can and should do to showcase them more clearly. Performance over the past three years demonstrates that we have reset and stabilised Group returns, providing a solid foundation to build on further. We've delivered a >10% RoTE in 2021, 2022 and excluding structural cost actions, are targeting >10% in 2023. And as mentioned earlier, our 2023 YTD capital distributions are up 30% YoY. So we do think that there is strong value in the franchise.

A lot of the debate in the market is around our Corporate and Investment Bank. To reiterate what our management have said in recent months, we feel that that business is now of appropriate size and scale to compete effectively with our US banking peers and generate good returns. In Investment Banking, within Debt Capital Markets, we've traditionally been and continue to have leading positions, we have been and continue to be focused on building out the strength in ECM and also in M&A, both of which are capital light, and will allow for a more balanced portfolio of businesses. In Markets, we're really focused on core presence in the UK and the US and on Prime and Fixed Income Financing, where we've made great strides forward. We're # 3 in Credit and that's really improved over the last few years, we're # 1/2 in Fixed Income Financing, we're # 5 in Prime, having previously been # 7/8. We like financing businesses for a number of reasons but also because they are capital light, given they are secured lending and thus RWA efficient. Further colour to be given on 20th February on this business.

I hope this answers your questions.

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