

Barclays PLC Q2 2023 Results**8 August 2023****Analyst meeting transcript (amended in places to improve accuracy and readability)****Anna Cross, Group Finance Director**

Good morning. Thank you for coming and having breakfast with us this morning. I'll start with a few key messages as usual, and then we'll move on to Q&A and I will go around the room.

At Q2, we announced a 2.7p interim dividend, and a further half year buyback of [up to] £750m. In total, that was £1.2bn of distributions, or 5% of our total market cap, on the day. As a reminder, over the last two years, that means we've delivered a total capital return of £5.8bn, roughly a quarter of our total market cap.

Group RoTE in the second quarter was 11.4%, and 13.2% for the first half. That's in line with our expectations, and as a result, we remain very confident about hitting our RoTE target of above 10% for the year.

Income was up 6%, [£335m] on a strong Q2 last year, and that reflects our diverse sources of income. BUK [NIM] was 322bps, up four bps in the quarter, again in line with our expectations, and it would have been two bps higher had it not been for the transfer of Wealth to CC&P. What is going on there is, as we've spoken to you before, it's the strong impact from the continued hedge momentum, some lagged base rate effects, and some reversal of the treasury effects that we talked about earlier in the year. These were moderated both by mortgage margins and by some developing deposit dynamics, which I am sure we'll talk about.

As a result of those deposit dynamics, we revised our BUK NIM guidance, and we now expect full year BUK NIM to be below 320bps, with a current view of around 315bps. That principally reflects our expectations about customers holding lower deposit levels and for those deposits to be paying higher rates. As I said on the call, what caused us to change our view was really recent macroeconomic developments, and I'll call out a few. Specifically high inflation, and for that being persistently high. Secondly, the continued increase in base rates themselves. Thirdly, the increase in swap rates now transmitting through to materially higher mortgage rates.

In that environment, customers are behaving extremely rationally and they're using their surplus deposits to manage their finances very proactively. So, for example, paying down debt, proactively managing their mortgage payments and making excess payments in advance of any refinancing event. As a result of that, we expect deposit volumes to continue to reduce into Q3 and be somewhat more stable in Q4, and accordingly, we expect the UK NIM to step down in Q3 and be a bit more stable into Q4. Of course, the precise outcome of where we land will be dependent on many things, specifically these deposit dynamics and the macro factors that underpin those, inflation and how that progresses from here, and also the rates curve and the way that impacts mortgage pricing.

Overall, we would say that our customers continue to be very rational, very resilient, and very conservative in their behaviour. Whilst we are seeing an impact on [BUK] NIM, we are also seeing a beneficial impact on our credit performance, and you'll know that impairment in BUK remains stable and low.

Our structural hedge income continues to grow. Swap rates rose very sharply in Q2 to 5%, and reinvestment rates are therefore considerably above the c.1% maturing yield we have this year. That building effect of the hedge, gives us confidence that the gross hedge income in 2024 will grow strongly again on 2023. Given the scale of the maturities that we have and the pickup, we would expect that to offset the deposit behaviour that we have been discussing.

In CC&P, our income was up 18%, year on year, driven mainly by US cards, and also by Payments and the Private Bank. We delivered positive operating jaws again of 4%, with operating costs excluding L&C up 14%, reflecting the continued volume growth in the business.

CIB income was down 3%, but against a very strong comparator. That reflects our desire, and our diversification within the CIB, to create a more stable, resilient business. Notably within that, Corporate banking and Transaction banking increased strongly year on year, at around €900m [for the quarter].

Total costs were £4bn, up 2% year on year. Our cost: income ratio improved from 65% last year to 63% this year, an increase on 57% from the first quarter, as we expected, just because of the seasonal shape of the business. All of that is factored into our guidance for costs for the full year, which remained unchanged: that we expected Q1 to be the high point of operating costs for both Group and the CIB and that we expected the total cost: income ratio to be in the low sixties for the year.

Impairment in Q2 was £372m, which was in line with our expectations, both in size and its location within the Group. As we expected, the majority of our charges was associated with US cards, reflecting the growth in that business, and also the seasoning and normalisation of delinquencies as balances have grown. Overall, the loan loss rate in the quarter was 37bps, bringing the first half to 44bps. We continue to take a conservative approach to our impairment, we see limited signs of stress in the portfolios at this point in time, and we re-iterated our guidance of 50 to 60 bps for 2023.

Total deposits were stable at £555bn, again reflecting the same sort of trend that we saw in Q1, [with] higher international deposits in Treasury offsetting some reduction in Retail and Business banking and we believe that's in line with broader market trends.

[Group] CET1 was up 20 bps quarter on quarter, comfortably within the 13-14% target range at 13.8%. Reflecting the £750m buyback, that would be 13.6% on a pro-forma basis.

TNAV was 291p, down 10p in the quarter driven materially by the impact of cash flow hedge reserve, and that in itself is being driven by higher rates.

So to re-iterate, we delivered earnings per share of 8.6 pence per share in Q2, generated an 11.4% RoTE, and we're very confident in achieving our target of greater than 10% for the year. We are being very disciplined on managing our costs and capital, we're very focused on the risk outlook, and we expect to be able to deliver attractive capital returns to shareholders, and we'll balance that with selective investments.

I'm going to pause there and take your questions. We'll run the meeting as we have done before. So I'll go around the tables until we've answered all of your questions. We'll aim to wrap up by about sort of 9 – 9.15, so you can get on with your days.

Please, as you start with your questions, can you announce yourself and where you're from because this meeting is being transcribed. Thank you. [...] Who wants to go first?

Raul Sinha, JP Morgan

I guess the first thing is just the evolving, regulatory environment. There have been a few updates and changes as weeks have gone by [on Consumer Duty]. I was wondering if you could update us on your latest thoughts around some of these regulatory changes, whether they're material or not, impacts on any particular business, whether you're looking to change pricing and what you see at the industry level?

The second question, [...] obviously two [UK] peer banks prefaced guidance [by commenting] that this is the current view, which implies that there is a lot of uncertainty around the evolution [of NIM] in the second half of the year. I was looking to explore what are your key assumptions that you are relying on to get to that 315[bps] number. I know you've not given us deposit beta at the Group level, but can you talk a little bit about what you expect deposit pass through to be at the industry level for the rest of the year?

Anna Cross

In terms of the regulatory matters that you're talking about, [is that] largely Consumer Duty? Okay. As you might imagine, we have been working on Consumer Duty for a long time. So, whilst it's been very newsworthy over the last sort of week or so, for us it's actually been a long time in the planning. Indeed, the BUK transformation that we've been talking to you about has Consumer Duty at its heart. What we've been doing is training all the colleagues in the bank around Consumer Duty because, whilst it predominantly affects BUK, it also has implications for the rest of the bank. Within BUK we've also reviewed and made any changes required to any of the open product sets that we have. So, as far as we're concerned, a large part of the work is already behind us, as you would expect with a change of this scale. I would mark out a couple of things that are probably newsworthy to you.

The first, [and] I think the biggest change, will be maintaining sufficient data to ensure that we are demonstrating good outcomes. That is what is materially different. So, when you read the Consumer Duty, you would expect that as a retail bank, we would have sought to do those things in any event - ensuring good outcomes for customers should be at the heart of what any retail bank does. However, there is a requirement around data and for us to be able to demonstrate that's the case. So, the BUK team have been working very hard on that.

The second thing I would say is [...] we're confident in the range of pricing that we've got on our savings products in particular, which is what's been particularly in focus. We've had a 5% rate out there since last September. What is very important though is not only that those rates are available, but that those rates are easily accessible for our customers. Savings is a non-advised sale, so [we] don't advise you to move savings, but [we] should make it very clear what those rates are, and make it easy for you to switch. Again, we think we're in a good place. If I go back to [the] Rainy Day Saver, more than 90%, I think 95%, of our customers have opened it digitally. So, they're using the channels that we've given them to move actively. That movement and proactivity is wrapped into the NIM guidance that we have given you. So we considered that when we gave you guidance. Also I would say that as rates are materially higher in absolute terms, customers are more likely to make those changes, [and] that was also reflected in [our guidance].

Let me come on to the [BUK] NIM guidance that we gave you. So, to be clear, what prompted us to change our guidance was deposit levels, not switching. Specifically, what happens in retail banking or business banking in a normal year [is that] deposits fall in the first quarter, thereafter they rise. That's because people [tend to] pay off their credit cards and pay their tax in the first quarter, and then we see a rise in deposits in the second quarter. That didn't happen across the industry and it didn't happen for us. Deposits fell again. So that was unexpected for us, and it reflected those factors that I talked about; it reflected the fact that customers are dealing with a higher and more persistent level of inflation.

They are proactively dealing with considerably higher mortgage rates if they are coming up for a renewal. We saw a change in behaviour, [and] what we are assuming from here is that we see a similar level of behaviour in Q3. That's really important. We expect to see some stabilisation in Q4. Normally what happens in Q4 is deposits rise. We're not assuming that, we're assuming that they stabilise. So, I don't believe that this is behind us, specifically because the factors that we believe are driving [this behaviour] are still out there, which is why we've made that assumption.

The second assumption that we've made is that base rate increases from here give us no benefit. That's simply because we believe, as we said for some time, that pass through will be higher with each subsequent base rate rise. Base rates are now extremely high and customers have clear expectations. Pass through will be significant from this point in time and it will prompt switching such that we don't expect to see a benefit. In fact, we might see a slight negative and that's what we're expecting.

The third thing that we are assuming is that we do not see material loan growth in the second half of the year, and that includes unsecured loan growth. That is because of the conservative nature of our customers. We believe we're seeing the benefit of that in our impairment.

James Invine, Societe Generale

I was wondering if you could please tell us a little bit more about the strategic review that BCG is doing for you at the moment. We've seen a few bits in the press, but what exactly have you asked them to do? Is anything off limits? And have you had any interim conclusions from it yet, please?

Anna Cross

Like most banks, we go through a planning process in the third and fourth quarters. That's what we're doing right now. That is the basis for many things in the bank, so it's the basis for our subsequent stress testing, it's the basis for many of the opinions that we use around the year end, but really importantly, it's the basis for capital allocation, it's the basis for the investments that we make in people and technology, and the efficiency plans that we will drive in the next year, both around capital and costs.

This year is no different. What we have done this year though is we've asked for some external help, and the rationale for that is essentially to do a slightly more enhanced version of it, but it is very much a repetition of what we've done in prior years, so think of it as an enhanced planning process. The scope of it is the entire bank as any planning cycle would be, so very much in line with what we would ordinarily do. In terms of interim conclusions, James, we are very much running to our usual timetable. I would expect us to complete it sometime in Q4, in alignment with what we would normally do. That's the long and short of it. I appreciate there's been a lot of speculation around it, but it is actually relatively straightforward.

James Invine

So most likely we'll get to hear the conclusions with the Q4 results. Is that right?

Anna Cross

Well, to the extent that we believe that there's something that we would [share], then that would be about the right time.

Perlie Mong, KBW

Just two questions, again on the UK. First, on deposits you've given us lots of explanation as to why deposits have moved the way they have, but I guess it doesn't seem that you [are] very actively doing a lot to sort of fight for deposits. If I just look at current account switching offers, a lot of your peers would have £150 - £200 offers, but I have not seen that from you as such. I guess in the past, that probably doesn't make sense because liabilities didn't give you a lot of yield, but this is a different environment. So I guess just in terms of your thinking, why have you not sort of gone more active in terms of attracting deposits? And I guess instant access will be a similar product, I know there's the Rainy Day Saver, but if I just look at instant access flat rates, even if I compare to your larger peers, it is a little bit below. Presumably in this environment if you're offering [perhaps] 1%, 1.5% even 2%, there is still quite a lot of upside to gain from doing that. So, I guess that's on the deposit side.

The other one is on assets. I was just looking at best buy tables for mortgages. I guess it's not just you, but none of the large incumbent banks are in the best buy tables. I know you can't comment on other people's pricing strategies, but from your perspective, are you sort of thinking to prioritise margins over volumes?

Anna Cross

So firstly the amount of current account activity that goes through the switching services is relatively low. That's not something that we would particularly focus upon. We really value our franchise around deposits, but the way we think about it Perlie, is to link the savings to the core deposit which is the current account. If you look at the way our savings strategy is built, we're essentially trying to encourage our customers to build better savings habits. We are linking specifically to our Blue Rewards strategy. If you look at our Blue Reward Saver and the Rainy Day Saver, they are essentially speaking to our current account base.

The Everyday saver that you talk about, that's not something that our customers leave cash in for a long time. Behaviourally, typically they cycle through that product relatively quickly, so they're putting cash in and out of it all the time. From our perspective, we would say to our customers that actually, if they're looking to hold savings with us for a long period of time, that's not the best product for them to have. Customers with high balances really should be looking towards term deposits. Again, we would see ourselves as broadly competitive with our peer sector, and with those sort of relationship-led instant access accounts. The Everyday saver is really a different product and you have to consider how the customer uses it. If you look towards what the FCA would guide customers to do, they would say that once [customers] have a certain level of deposits, they actually should be looking [at] investments more broadly, not just savings deposits.

So, we're trying to speak to a hierarchy of products, if that makes sense. The everyday saver is a utility, in and out of your current account, really unrestricted. That's how customers behave with it. If they want to save in a slightly different way, we would encourage them to do that through our relationship products. So Blue Rewards, our main Everyday saver, and then if they've got money to invest for the longer term, really they should be in term deposits or in investments. That's how we think of it and that's how we would guide our customers today. That strategy has been consistent for a long time and one that we feel very passionate about, which is why we set it out very clearly. When we went out with our Rainy Day Saver last year at 5%, [many] were questioning why we would do that; it is because our savings franchise is very important to us.

In terms of assets and mortgages in particular, mortgage pricing moves around all the time. It tends to follow the swap curve and it can do so in a lag. So, if you look at it at a point in time, it can be different the next day. Typically mortgage pricing follows that curve. It's an extremely elastic, extremely competitive market. How we feel about it is that we're happy with the returns that we are getting, but we won't chase [market] share. To the extent that we weren't happy with those returns, we would be happy to step back. I would say the market overall though, is relatively quiet and very focused on refinancing and re-mortgage activity, which we are very good at. It is very much a heartland for us, low loan to value, re-mortgage activity is something that we process really well. We're happy where we are taking broadly what we want, but I wouldn't look at any particular week in isolation because it can be quite misleading.

Rohith Chandra-Rajan, Bank of America

There was a lot of discussion on the call about various aspects of the strategy, maintaining or growing share in CIB, some capital reallocation and a focus on capital-light revenue generation. It'd be really helpful actually, just to hear your summary of Barclays' strategy. [Holistically], how would you encapsulate Barclays' strategy in terms of how you are driving the business forward?

Then linked to that on CC&P, profitability seems to be on a generally downward trend as provisions have normalised. So we're looking at kind of low double digits returns from that business. Is that where you expect it to end up? It sounds like that's a growth business, so how should we think about profitability and how do we get there in CC&P?

Anna Cross

We've talked fairly consistently over the last few quarters about three strategic priorities, Rohith. The first is around the next generation consumer. That covers both CC&P (which I'll come back to) and BUK. Essentially what we're trying to do there is we're talking about a business that is transforming itself from its current format into a much more digital offering. So, if you look at BUK and its specific transformation, of course there's the Consumer Duty, but one of the other things that we're doing is trying to ensure that customers can do everything that they need to do with us digitally. The reason that is important is, if you have 85% or 90% of a customer journey, for example, that's digital and the rest of it isn't, what happens is the customer falls out into the physical environment, whether that be a call centre or a branch. That means that you're investing in digital, but you're unable to take the physical out.

So that digitisation and simplification, both the product stack and the technology stack within BUK is really important, and that is what is going on within the transformation, [with] the Consumer Duty being at the heart of it. It is really easy to say next generation consumer, but there's a lot of activity that underpins that. So what does that really mean? That means that we are aiming for a BUK business, which is simpler, more digital, and ultimately is more efficient than it's today. You'll have seen that is consistent in the way that we've talked about it over the last few quarters. I'll come back to CC&P with the second part of your question.

The second thing that we have been and remain very focused on is a sustainable CIB. What we mean by that is one that can perform in a range of macroeconomic environments. Actually Q2 was a good example of that and the reason I say that is because we saw quite an unusual atmosphere in Q2. Ordinarily we would expect Banking and Markets to be counter cyclical, in Q2 that was not the case, they were both very quiet, [with] too much volatility for Banking [and] not enough for Markets. Despite that, you see a relatively strong result in the CIB because of its much more stable core. That comes from Corporate, whether that be Transaction banking or Corporate lending, and you saw a much cleaner result in Corporate Lending this quarter because there was no leveraged finance noise in there. The other side being Financing, which again we called out. Those are businesses which we have deliberately invested in, in order to create the kind of ballast that you saw in Q2, and so really from our perspective, it's about diversification within the CIB to make it an inherently more stable whole.

Then the third piece, which I guess we talk to you about less frequently in the results, but we spend a lot of time with buy-side investors on, is ESG. Essentially our role in helping the UK and our global clients transition to a low carbon economy. We feel we're very well placed to do that because we serve a real breadth of clients in the UK, and we also serve some of the largest institutions and corporates across the globe. We're able to provide seed funding, help them transition, and help them raise funding etc. We're involved with all of those activities and actually an increasing body of activity within the retail bank itself. So that's the third strand because actually we genuinely feel like there's a role for us to play there, which is quite unique, certainly within the UK. It does give us a revenue opportunity we believe, not just now, but in time. That's how we think about our strategy at this point. As I say the planning process that we're going through is not complete and won't be until its normal cycle ends.

Coming back to CC&P, there are two significant businesses in there and there's also the Payments business. So they are the three sort of big pieces. We'll just take them one by one.

In US cards, if you think about what's happened to US cards over the last few years, we frequently talk to you about the J-curve. The J-curve means that for the first 18-24 months of a customer's life with us, they are typically not positive RoTE or they're not meeting the hurdle rate. That's because there's marketing spend up front; we obviously incur the capital impact on day one, we take a day one impairment, we take rewards costs up front and it's only when that customer starts to use and borrow on the card later in maturation if you like, that we start generating a positive return – that is normal.

For the US cards business, we've sort of lost a cohort that otherwise would have joined us during Covid. If you think about during Covid, what you had was essentially a situation where marketing spend was low and all you've got is mature balances performing. When you start to grow your business again, you have to put down marketing spend and you have, again, early vintages, but you are missing a cohort of more mature businesses. So that is impacting the US cards business in particular.

Right now we do have a view that the US cards business should operate at mid-teens, so that's where it should be and obviously our desire is to get it to that place. Obviously we've also got Gap. Gap was enhanced by the fact that we also took on a back book. So didn't start as far down the 'J', but it's still a book that we are investing in. So that's really important.

Then when you go to the Private bank, [this] is actually a relatively high CIR business, but high RoTE. If you look at any private bank, or wealth business, ours would have the same characteristics. It's grown extremely well. If you look back over the last few quarters, you'll see that it's growing not only because rates have helped it (because it does attract deposits but, as you can imagine, those customers are quite savvy; they're moving their cash frequently). It's also grown its investment base. So we've been very quietly growing that business. We've now put UK wealth into it and because we think that's better run as a single stream.

I guess our objectives for that business are to continue to grow it. It's not possible for you to see the RoTE at this point, but within that it's growing very nicely. We're very happy with that business and the progress. We may choose to invest more in that, but that's one of the reasons that we've brought Wealth across.

The third piece within that is the Payments business. This is a volume business, typically low capital, but low margin. What we see in the current environment is the particular mix of current customer behaviour can challenge that business a little. The reason I say that is typically more discretionary items, and bigger purchases tend to have a higher payments margin than essential spending. So as customers are moderating their behaviour around the cost of living squeeze that they are feeling, that impacts the margin of that business, but again, we'd expect that to be a temporary effect and we probably reverse as the UK economy comes into a more confident space. So we're seeing that business a little bit compressed at the moment.

Overall strategically, [the businesses within CC&P] are working as we would expect them to. So we're happy with that. The US business continues to grow, Q2 is a little bit low, but seasonally always is as people get their tax payments in the US in Q2 and pay down their balances. We would expect it to grow towards the back end of the year and we'll continue to grow that business. Private bank is doing exactly what we expect it to. It's now got [UK] Wealth in there to create some greater breadth. And then Payments is a bit more challenged by the environment, but again we'd expect that to come back as the economy recovers.

Guy Stebbings, BNP Paribas Exane

Back to Barclays UK and NIM. It feels like there's a slightly bigger step change in expectations for BUK versus some peers at Q2, so I'm just trying to get to the bottom of why that is. Is it simply a reflection of greater conservatism or is it something about the customer base which is slightly different from peers? I think there's two things I sort of came across and thought about, one in terms of some other banks have talked about inflationary pressures and a higher wage growth actually being a positive for current account

balances. So is that something that you are seeing at all that provides a slight support to the deposit base? Then in terms of mortgage repayment balances, you obviously called out the customers doing the sensible thing where they have the capacity to do so, they're paying it down, that's great for asset quality, but they're not so good for top line. Is there any data you can look at to see if Barclays is seeing greater repayments of principal for mortgages versus the industry as a whole?

The second question, on a completely different topic, was around the IB franchise and Basel 4 following what we heard in terms of the US and how that's being implemented, less so in terms of what it means for your capital base directly at a local account level, but more from a Group level and strategically does that open up any opportunities in terms of any product sets where the relative change in capital is slightly better for Barclays than it might be for some international peers.

Anna Cross

Okay, so back to Barclays UK and NIM, is it conservatism or mix? I think we've been quite clear about what we expect to happen. It sounds like there are some differences in core assumptions that we are making, and I would say they're probably about unsecured [lending], what happens to deposit balances, and also what happens on pass through. So I would say all three of those are probably differences in expectations that we've articulated versus some of our peers. We've got [around] 20 million retail customers in the UK. We're not a niche bank, we're a mass market bank. We do have perhaps high penetration around, slightly older, more wealthier customers, but it would be at the margin.

On your point around inflationary pressures and wages, I would guide to two slightly different things. We see Business banking deposits moving in response to inflation, and those customers really using their surplus deposits for working capital. They look like they're managing really well. If anything, you'll see that our Business banking impairment is actually moderated and improved, so I think we can see inflationary pressure in the way that they are managing their businesses.

I would also say on the consumer side, it's as much about the choices they're making about those surplus deposits. So it's not really that they're running them down because of those inflationary pressures. They're basically choosing to either move their deposits or they're paying down their debts, [and] keeping their credit card balances low, so repayment rates are high through every risk spectrum.

Mortgage balances are being paid off more quickly. I think it's difficult for us to tell that they are different [to peers], but given our [market] share and scale, I think maybe we're just interpreting them differently. One point I would say, there are definitely signs of relief for the customers. Energy payments have come down, but inflation does remain high. Particularly for those customers re-mortgaging over the next 12 months in particular, they are going to experience payment shocks. So we would expect them to continue to behave, to really manage their position proactively. Overall, we think that's a really good thing. It does impact NIM, it does impact asset growth in the short term, but it also impacts our impairment, and actually the best thing that we can do for the franchise is to make sure that our customers are financially secure for the long term, that's much more important than short term matters for us.

In terms of the IB franchise, we are pleased to see the US rules come out. They were somewhat delayed, so it is good to see them. As you can imagine, [it is a] very large document, we are still going through the process. What's really important for us is lining up the US rules, the UK rules and the European rules and understanding what difference they may cause. Ultimately for us we'll have to comply with them all, because we operate in Europe in a European subsidiary, we operate in the US in a US subsidiary, and we operate globally under PRA rules for the Group. So for us it will impact us pretty much everywhere.

I think if we had an objective, it would be to try and ensure that those differences are as few as possible. We think that's the right thing for the client, and we think that's the right thing for the investor. Now we have all three sets of rules [and] we'll continue to work through that with the regulators, but it's a bit too early to say, 'we think this product will work really well in this geography and that one won't', but we'll

continue to give you more colour. Of course these are still somewhat in consultation, so there's a bit to go here, but in the background we're obviously preparing, and moving towards a 1 January 2025 implementation in line with the UK expectations.

Benjamin Toms, RBC

On your German consumer credit card business, which you've said is for sale, can you just give us some idea of the P&L and balance sheet associated with this? Secondly on spreads, you talked a little bit about mortgage pricing spreads in the last quarter. I know you don't disclose that [...] but what does it take for spreads to go back to the kind of range assumptions of 75 to 100bps? Is it just as simple as rates becoming more stable or are there other factors that we need to see?

Anna Cross

On the first one on the German card business, actually a couple of times a year, I think once every six months we do actually disclose the balances out, [it is] a little over £4bn.

We don't disclose the P&L but you can tell from that scale it's not a significant business particularly. It's a very good business with a very strong market share, but over time we have refined our European proposition and we've now decided that we want to explore selling that part of the business because it's really the only retail business we have in Europe now. It's not a huge business.

The second point on mortgage margins, we and everybody else across the industry will reflect as they are pricing their mortgages on the margin, on wholesale and on the swap rate. So, you know, mortgage pricing moves almost with a delay, in parallel with those. The specific margins have obviously compressed over time. Typically that's what we would expect to see in a rising rate environment, and there is typically an offset between liability margins and mortgage margins. That's essentially what tends to happen because the deposit takers are also mortgage lenders largely in the UK.

So what would I expect to see from here? I think it's unlikely that we'll see further compression. I know quite a few people have had some thoughts about this, specifically comparing to the pre-global financial crisis position and the margins available then. We are in a completely different capital environment to that position. So the discipline that banks have around funds transfer pricing, the capital rules that we now apply, and actually remember that the UK is going through a process of all of the large lenders rebuilding their mortgage capital models (and we're going through that transition right now). So I think it's unlikely we'll see a downdraft from here, just in case any of you have thoughts around that.

I think of asset [and] liability margins as connected. To the extent that we see a turn in liability margins and they start to compress, I might expect to see some offset in mortgages. The only other thing that may be an impact, not for us, but maybe a broader market impact would be liquidity. Liquidity also impacts the appetite of lenders in the mortgage market. The reason I say that is we're about to head towards repayment of TFSME, so you might start seeing some change in behaviour there. Clearly that doesn't impact our Barclays UK franchise because we have a low loan: deposit ratio, but it might have some effects around the edges of the industry that would impact pricing. We've not seen that, but that's the only other factor that's out there.

Raul Sinha

[Barclays] RWA density is relatively high. When we think about group loans over risk weighted assets, I guess there is a sentiment of you know, funded assets which is not captured in your loans definition, but when we think about your RWA density as a standard, it's already quite high. And then, when we factor in your Basel 3.1 guidance, at the low end of the five to ten [percent of RWAs], that would imply a very significant step up again in RWA density. Do you think that is something that is going to be a feature of your business over the long term because of the way you manage a diversified balance sheet and you have

the investment bank, which [has] some leverage assets on top? Or do you think that this is something that could be managed over time?

Anna Cross

The first thing I would say is we've got a good track record of navigating regulatory change, and I would expect the same to be true of Basel once we [are] clear about what's going on.

The second thing I would say is that, as we've put more RWAs particularly into the CIB over the last few years, we've clearly seen an increase in returns. So, we're extremely disciplined about the returns that we are requiring from those RWAs. Our bigger CIB is operating more effectively than the smaller one did. Having said that, I appreciate the comments about RWAs density and that's clearly something we're very thoughtful of.

The other thing I would say is just to consider the RWA flexibility that we have is quite different from our UK peers. We have RWAs deployed into some parts of the business, which add to that total. They're also extremely flexible because we're operating in different types of markets. If you put RWAs into mortgages, they're relatively low in terms of their weighting, but they can be quite sticky and can be there for a long time. Whereas some parts of our Markets business for example, or even in the Banking business, you are holding those RWAs for a very short period of time and generating high returns from them, and it makes your business extremely flexible and it means that you can navigate the seasonality of the market more generally. So we actually think that's a considerable benefit in our business because it is slightly different in its balance sheet nature to our peers in this country at least. I completely accept the points, [and it is] one of the reasons why we're focused on our Private Banking business for example, but [we are] satisfied with the returns and the discipline that we have around RWAs.

Raul Sinha, JP Morgan

To follow up on that, you mentioned the industry has changed the mortgage models, obviously there's been some front loading of Basel, in terms of how the banks work out mortgage risk weights. How do you think that has changed the sensitivity to house prices going down? Do you think we get more pro-cyclicality relative to what you're expecting, or do you think that effectively should be negligible given how you've got a floor in place?

Anna Cross

Essentially what they're trying to move us towards is a hybrid model, which inherently should have a bit more pro-cyclicality to it than a through the cycle model. We'll have to see what happens. Is it impacting how people are behaving now? Not really. I think most large lenders probably have been factoring this in for some time. I would think as we've gone through that transition period; HPI does impact mortgage capital and it does so instantaneously, it's one of the few macro factors that does translate to capital instantaneously. That and commercial real estate pricing, I would say would be the immediate ones.

To date, I think what we've seen in HPI, whilst it's moderated, is it's moderating from a high. We've not seen anything yet that's concerned us and actually the outlook for HPI does not suggest that there's going to be a massive change anytime soon. If you think about the UK market, there's still quite strong demand for houses. We're probably going through a moderate correction, post quite a steep rise in house prices through the pandemic period, but we're not concerned about the capital burden.

Ali Woods, Morgan Stanley

Two questions on CC&P. At Q2 results, you said you want to grow [US] cards, but in a capital efficient manner. Would you be able to shed a bit of light on how you've looked to do this? Was this through higher

credit quality customers? And also, have you got any initial thoughts about how you balance white label growth versus potentially Barclays own-brand growth?

And then on Payments it's a relatively low margin business, have you thought about potentially entering any JVs and would that be something you consider as part of your strategy review?

Anna Cross

On CC&P, a few things particularly in US cards: we are already pivoting our book towards higher quality credit. That is something that's happened since the pandemic. As we look at our book, what we see is that the FICO is generally higher [compared to] pre-pandemic, and that's including having onboarded Gap. Naturally I think we are drifting towards a higher quality credit [and] that clearly has some capital benefits.

The other thing I would say is that on the own-brand question we made that decision a few years back, I would say three or four years ago, where we essentially shut down our own-brand business. We did that for a couple of reasons.

The first thing is that we don't have a broader own-brand consumer business in the US. We felt that as a returns matter, credit matter, and a strategic matter, it wasn't something that we really wanted to continue with. So that book is [in] runoff within our portfolio.

The other really important point that we think is different between us and our US card for peers in general is that we don't appear in the customer's wallet somewhere else. So, when we are talking to an institutional client or a corporate client about running their card for them, we can very clearly say that we are not in competition with them and we think that's important. It allows us to focus on what we think we're really good at, which is focused on the partner brands and running those efficiently and effectively for those partners without seeking to compete with our own brand. So, we've made that decision. I don't see us changing that soon.

In terms of Payments, I wouldn't say anything about strategic alliances or otherwise. What I would say is it's a business that we continue to grow. We see opportunities, both within our own corporate base, but particularly within our own SME base. That's a part of the Payments franchise that we have probably not focused on as much as we should, and we see some opportunity there. And the point around that is typically for that consumer base, the margins are slightly higher, and the reason for that is it's not just payments that we deliver to them, we're also typically able to give them fraud support, and give them access to an eCommerce gateway etc. It tends to be a slightly wider proposition that we can offer to them, but again, it's wider margin. So, we're very focused on diversifying that Payments business, and specifically towards higher margin customers who are already within the Barclays franchise, and essentially moving more towards Barclays UK and ensuring that we are serving that [customer] base well.

Andrew Coombs, Citi

Firstly, on Financing revenues, in your footnote, if you strip out the inflation-linked products, I think you said they were flat year on year, whereas a number of US peers called out Financing as being particularly strong year on year. Is there anything you could spell out there in terms of why it's flat?

My second question would be, coming back to this point on RWA density, but more specific to CIB, I think your revenue to RWAs is running around 6%, and that's even with a very big Transaction banking [line] in that division. So you're below peers even with Transaction banking included. Any thoughts on whether it's a mix effect or capital intensity issue?

And then the final one is just on revenue volatility within fixed income and equities. If I go back a decade, the Barclays argument was always about being a flow monster and having a very sustainable revenue

stream, and yet if I look at the volatility of your revenues and those two lines, if anything has gone up, and it's actually quite high relative to these two lines, Fixed income and Equities revenues. So any thoughts there as well?

Anna Cross

On Financing revenues, what we've basically said is that these are not one-offs, to be clear. There are elements of the Financing portfolio which are somewhat inflation-linked. I think even after we pull those out, there is still some growth in the portfolio, we will come back and confirm that to you. I think this is still a business that we've grown very strongly. We're very happy with the growth in client balances both across Fixed Income Financing and Prime. I would say in Q2, the market was a bit quieter, volatility was a bit lower. We, and I think others, probably saw some compression in margin, but this is still a great business, and remember it [has] a very low RWA density in comparison to the rest of the CIB. So this is a very efficient, high RoTE business, and really what we're looking for there is stability. That's what it's there to provide. Our focus is very much on doing more business with the top 100 clients that we have, and we're convinced that we're seeing growth in those clients in particular.

On CIB revenue to RWA and capital intensity, very similar to what I said to Raul, we recognise that there is a [capital] intensity in that. However, we're very disciplined about the returns that we get. We found that as we have deployed some more RWAs into that business over the last few years, we've clearly improved the overall returns of the business. It's much more consistently delivering. It has been double digit [RoTE] 10 out the last 14 quarters, so we think we followed the right strategy there and also this point around those RWAs are very flexible and we think our ability to move and direct RWAs around the CIB is important.

On FICC and Equities, I think there's a couple of things going on there. [On Equities] when you compare to Q2 last year, remember that we had our hedges in place for the Over-issuance. So that's made a big difference year on year. Those hedges were there to manage and absorb the volatility associated with the conduct cost of doing the rescission, so that's impacted those numbers significantly.

On FICC, even after you strip all of that noise out against a very strong quarter in Q2, we feel that in Q222 we monetised the volatility associated with the Russia/Ukraine war very well. If you look on a longer term trend, you'll see why we're comfortable with that progression.

I think Equities is a little bit different. When you take Prime out, we are probably a bit heavier in Derivatives than we are in Cash, and that means that we tend to outperform in a more volatile environment and slightly underperform in a less volatile environment. That is very much around our trading style and helps you understand why we're so focused on Prime. I think the other thing is in that quiet environment, if you are running an Equities business, you do get a side benefit from an asset management business if you have one and clearly we don't. So I would probably also call that out.

I think the only other thing I would say is that as I look at our US peers' results from Q2, many of them called out Securitised products in terms of a bounce back in Q2. Again, that's a business that we are still quite embryonic in. It's a business that we have been growing, but it's not as significant for us as it would be for some of our peers. So there's a trading style element in here and also some base effects.

Important Notice

The terms Barclays or Group refer to Barclays PLC together with its subsidiaries. The information, statements and opinions contained in this document 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 domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended. All such regulatory requirements are subject to change and disclosures made by the Group will be subject to any resulting changes 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, 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.

Important information

In preparing the ESG information in this document:

(i) made a number of key judgements, estimations and assumptions, and the processes and issues involved are complex. This is for example the case in relation to financed emissions, portfolio alignment, classification of environmental and social financing, operational emissions and measurement of climate risk

(ii) used ESG and climate data, models and methodologies that we consider to be appropriate and suitable for these purposes as at the date on which they were deployed. However, these data, models and methodologies are subject to future risks and uncertainties and may change over time. They are not of the same standard as those available in the context of other financial information, nor subject to the same or equivalent disclosure standards, historical reference points, benchmarks or globally accepted accounting principles. There is an inability to rely on historical data as a strong indicator of future trajectories, in the case of climate change and its evolution. Outputs of models, processed data and methodologies will also be affected by underlying data quality which can be hard to assess or challenges in accessing data on a timely basis

(iii) continued (and will continue) to review and develop our approach to data, models and methodologies in line with market principles and standards as this subject area matures. The data, models and methodologies used and the judgements estimates or assumptions made are rapidly evolving and this may directly or indirectly affect the metrics, data points and targets contained in the climate and sustainability content within this document and the Barclays PLC Annual Report. Further development of accounting and/or reporting standards could impact (potentially materially) the performance metrics, data points and targets contained in this document and the Barclays PLC Annual Report. In future reports we may present some or all of the information for this reporting period using updated or more granular data or

improved models, methodologies, market practices or standards or recalibrated performance against targets on the basis of updated data. Such re-presented, updated or recalibrated information may result in different outcomes than those included in this document and the Barclays PLC Annual Report. It is important for readers and users of this document to be aware that direct like-for-like comparisons of each piece of information disclosed may not always be possible from one reporting period to another. Where information is re-presented, recalibrated or updated from time to time, our principles based approach to reporting financed emissions data (see page 87) sets out when information in respect of a prior year will be identified and explained.

Information provided in climate and sustainability disclosures

What is important to our investors and stakeholders evolves over time and we aim to anticipate and respond to these changes. Disclosure expectations in relation to climate change and sustainability matters are particularly fast moving and differ in some ways from more traditional areas of reporting in the level of detail and forward-looking nature of the information involved and the consideration of impacts on the environment and other persons. We have adapted our approach in relation to disclosure of such matters. Our disclosures take into account the wider context relevant to these topics, including evolving stakeholder views, and longer time-frames for assessing potential risks and impacts having regard to international long-term climate and nature-based policy goals. Our climate and sustainability-related disclosures are subject to more uncertainty than disclosures relating to other subjects given market challenges in relation to data reliability, consistency and timeliness, and in relation to the use of estimates and assumptions and the application and development of methodologies. These factors mean disclosures may be amended, updated, and recalculated in future as market practice and data quality and availability develops.

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. 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 directors, officers and employees of the Group (including during management presentations) 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 levels, costs, assets and liabilities, impairment charges, provisions, capital, leverage and other regulatory ratios, capital distributions (including dividend policy and share buybacks), return on tangible equity, projected levels of growth in banking and financial markets, industry trends, any commitments and targets (including environmental, social and governance (ESG) commitments and targets), business strategy, plans and objectives for future operations and other statements that are not historical or current facts. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. 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, regulation and the interpretation thereof, changes in International Financial Reporting Standard (IFRS) and other accounting standards, including practices with regard to the interpretation and application thereof and emerging and developing ESG reporting standards; the outcome of current and future legal proceedings and regulatory investigations; 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 incidents and similar events beyond the Group's control; the impact of competition; capital, leverage and other regulatory rules applicable to past, current and future periods; UK, US, Eurozone and global macroeconomic and business conditions, including inflation; volatility in credit and capital markets; market related risks such as changes in interest rates and foreign exchange rates; higher or lower asset valuations; changes in credit ratings of any entity within the Group or any securities issued by it; changes in counterparty risk; changes in consumer behaviour; the direct and indirect consequences of the Russia-Ukraine war on European and global macroeconomic conditions, political stability and financial markets; 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 any 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; the Group's ability to access funding; and the success of acquisitions, disposals and other strategic transactions. A number of these factors are beyond the Group's control. As a result, the Group's actual financial position, results, financial and non-financial metrics or performance measures or its 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 US Securities and Exchange Commission (SEC) (including, without limitation, Barclays PLC's Annual Report on Form 20-F for the financial year ended 31 December 2022, and Interim Results Announcement for the six months ended 30 June 2023 filed on Form 6-K), which are available on the SEC's website at www.sec.gov.

Subject to Barclays PLC's 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 in our results announcement for the period ended 30 June 2023.