Bank of America Financials Conference

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Transcript of fireside chat with Anna Cross, Group Finance Director

(amended in places to improve accuracy and readability)

Rohith Chandra-Rajan, Bank of America

Well, perhaps we could just start at a fairly high level in terms of if you could very briefly set out for us what your priorities are for Barclays? How we're seeing that come through in terms of recent performance? And then also the building blocks to deliver the sustainable RoTE above 10% that you have consistently targeted?

Anna Cross, Group Finance Director

So, the most important thing for us, and the thing that we are extremely focused on, is delivering consistent returns. You'll see in the second quarter, over 11%, 13.2% for the first half and we're very confident in delivering greater than 10% for the full year and as we do so that will be the third consecutive year.

We've been very focused on this greater than 10% [target], but that's not the extent of our ambition. And obviously, we'll come back and talk about that ambition in due course. But what that's really made up of is strong, diversified revenue growth. So, we saw income growth in the second quarter of 6%, that's against a really strong comp, and we saw it across the bank. We're containing our costs well. We're really focused on delivering our cost guidance and on managing inflation, so with 2% cost growth, that gives us quite a strong operating jaws. And of course, asset quality remains pretty benign, and we're really focused on managing that. So, we reiterated our asset quality guidance of between 50 and 60 basis points loan loss rate. What that allowed us to do at the half year, clearly the capital generation built a CET1 ratio that was strong at 13.8% by the end of the quarter and that facilitated an increased buyback and the increased dividend at the end of the second quarter. So, really consistency of returns, underpinning capital return for investors is what we're focused on.

Rohith Chandra-Rajan

So, we could walk through parts of the P&L starting with costs, which isn't necessarily the main focus of everyone here this week. Particularly given the high inflation, that's been a hard piece to manage. So how are you managing inflation versus the need to invest in growth and to drive efficiency across the group?

Anna Cross

So, you're right. We've seen high inflation, particularly in the UK and also in the US. The way we think about it is we're driving efficiency programs to counteract that inflation and really keep the base of our costs as stable as we can. To date, we've been successful in doing that.

That allows us to think about investments across the group. And we think about the different parts of the group in different ways. In BUK, we're extremely focused on driving returns to the bottom line, improving the effectiveness and the efficiency of that business. So, most of our investment in BUK has been towards transformation towards digital and operational efficiency.

In our consumer cards and payments business, both in US cards and also in our Private Bank, we are focused on growth. And so there costs might go up overall but it's really important that we're delivering strong jaws, operating leverage there.

CIB is somewhere in the middle. We've been through a few years now where we've invested relatively heavily in the CIB, in technology, in talent, in selective areas, and we've been thoughtful about those. The guidance that we gave at Q1 around CIB in particular was designed to indicate that actually we're coming to a point of stabilisation in those investment plans, so we no longer expect that rapid increase and actually what we're seeing now is the revenue coming behind that. So over time, we have an aspiration to get to positive jaws in the CIB also.

But overall, we've reiterated our guidance. We expect to be in the low 60s this year. And of course, our objective is to make the bank more efficient over time and get below that 60% level.

Rohith Chandra-Rajan

And then a recurrent investor worry, I think, probably for at least the last two years, it feels like longer in the UK, has been asset quality. The areas for Barclays that people mentioned to me most often are the cards businesses in the US and the UK, the tripling in mortgage interest rates as people refinance, and then worry around particular areas of sectoral exposures within the corporate book. So, across those three pieces, what are you seeing? Are there any indicators of stress and how are you managing that, if there are?

Anna Cross

What we've seen are not only the impacts of rates, but also the impact of persistent inflation. Clearly that poses some challenges for corporates and personal customers. And I think the market expectation is that we would see that come through in higher impairment.

Actually, we've discovered that our customers are rate sensitive, but just not in that way. They're actually more focused on managing their deposits. I'm sure we'll come to that. But really in the UK and in the US, we're not seeing any concerning trends.

In the US, the economy is quite different. The book that we have is quite different. It's a partner book, which is rewards driven. So, we've seen growth in balances post-COVID. We've obviously added Gap to that, but Gap is a relatively high quality retail book.

And over time, we've seen an improvement of FICO scores in that business (less than 10% [of the book] is below 660), so it's performing very well. We see an increase in delinquencies but in line with our peers and what we would describe as a normalisation really.

The UK is quite different, we see much more conservative consumer behaviour. We see that through our payments business; customers are managing their outgoings very carefully. They seem quite reluctant to build unsecured balances, so our cards growth remains very muted, and repayment rates are very, very high, and they remain high all the way through the credit spectrum.

In Mortgages, you call out the rapid increase in rates that many of our customers across the industry have faced. Actually, they're coping really well and I think at the heart of this is the fact that for a decade now in the UK, we've had to stress mortgage affordability at fairly high rates. So, anybody that we've extended a mortgage to since 2013 has been stressed at 6.6%, which is [higher] than the prevailing rate right now. But they're doing other things as well. They're paying down their mortgages in advance, so we're seeing more than a quarter of our book overpay on their mortgage and they're also re-mortgaging very quickly to secure a new rate.

I'd say in corporate, again, it's pretty benign. We have been very thoughtful about the way we've built our corporate franchise. We have very low exposure to commercial real estate and we changed some of our exposures post Brexit. We use synthetic credit protection very extensively through this book and that gives us coverage of about 35%. So again, we're really thoughtful about where we put our risk. But stepping back here, this is clearly impacting our NIM in some instances. It means that we're not growing unsecured as quickly, but we are definitely seeing sustainable benefits coming through in the impairment line and actually this is good for the long-term health of the franchise.

Rohith Chandra-Rajan

Moving on to Capital. There was another share buyback announced with the Q2 results. What's your ambition in terms of capital distribution? Can you help us frame what we should expect in terms of dividends and buybacks going forward, or at least how you think about it, and to what degree that may or may not be impacted by regulation in the US, which is obviously at the forefront of people's minds? And then there's also a knock-on worry that maybe that might come to the UK or Europe more broadly. How fixed is the regulatory framework do you think?

Anna Cross

So we've obviously had the Basel endgame proposals in the US more recently and that now brings for a bank like Barclays the near final piece in the puzzle.

For many years now, we have operated across multiple regulatory jurisdictions. We've got a US IHC, we've got a European bank, we've got a UK ring-fenced bank and then of course, for the whole group, the binding constraint is the PRA rules. So, we are exposed to the US rules, the European ones, and the UK ones, but we're used to that complexity.

Our primary objective as we go through planning is to anticipate regulatory change. We've been anticipating this Basel endgame for some time and we've given some guidance around that. That's built into our plans and the way we think about our distributions and indeed, our investments for the business. And that's really how we think about it in three big blocks. Regulatory requirements and prudential soundness, our ability to distribute capital to shareholders, and really, our ability to invest in the business.

How we think about it, particularly given where our valuation is, it's clearly that share buybacks are extremely compelling. Doing a share buyback given where we're valued would yield a RoTE around 20% with very little execution risk. That creates a very high bar for what we do internally.

And you'll note that over recent quarters, you'll see a cadence and you'll see the commitment that we have to return capital to shareholders. We've reduced the share count by 13% since 2020. Over the last two and a half years, we've returned nearly £5.8bn of buybacks and dividends to investors. It's around 25% of our [market] valuation, so, we are extremely committed to it. It's a very high bar for us to cross internally, but hopefully you've seen that commitment at the half year.

Rohith Chandra-Rajan

Then we could spend some time on the businesses, particularly CIB for scale and profitability. So, the things that weigh on people's minds. There's been a long running discussion about the weight of the CIB, particularly the capital consumption perspective within the business. But there's also been an argument from your side about needing to be there consistently for clients in order to drive the long-term profitability of the business. So, how do you manage the weight of the CIB, is that something that concerns you? How do you balance that with longer term profitability, market share, capital allocation, etc?

Anna Cross

It's a really good question with many nuances so let me try and unpack it. Firstly, our CIB is an extremely broad church. So contained within that is our Corporate business, very UK dominated, very stable. A stable net interest margin based business. It also contains our Global Markets business, which again, has a range within it. It's got the trading elements and also the financing elements which we've given increased disclosure for over time. And then there's our investment banking business. And really, our objective has been to get to a position where our business can deliver consistently double digit returns. And it has done for 10 quarters out of the last 14. So that was our objective.

We now feel like we have a CIB which is broadly of the scale we would like it to be. And during that time, it's been able to really make some momentum in market share. So not only growing its returns but generating better market share. For example, in Credit, we were number five, now we are operating at number three. And our Fixed Income Financing business, we were at number three, now we're at number two and our Prime business which we've been able to grow alongside that, recognizing that they're both RWA light, much more stable businesses, was previously around number eight, now in the top five.

So, we think we’ve demonstrated pretty particular client focus. We are very focused on deepening the relationships with our top 100 clients and that's resulting in market share gains across Markets. [Investment Banking] is similar. We've traditionally been very focused on debt capital markets. Now we are [also] really focused elsewhere within Banking. You'll note that we were one of the four global coordinators on the ARM flotation in the US. We've done the third sell down of London Stock Exchange and we are the only bank that's been on all three tranches.

So, we feel, again, that's a [strong] business. It's of the size and scale now that we believe is about right, and it's a business that we can continue to grow within its current footprint and continue to grow share. So, we wouldn't expect it to grow in relation to the rest of the bank. Indeed, our focus is on other parts of the bank, for example, Private Banking and our Retail and Corporate businesses.

So, I would say that as we go through investment in the CIB or indeed any other part of the bank, we are really focused on the discipline of how do we benchmark these investments relative to the returns that we offer to our shareholders. But we do feel now that we've got a CIB which has breadth and stability within it and is returning really well for shareholders.

Rohith Chandra-Rajan
So then moving on to Barclays UK and the margin. I suppose the thing that's front and centre currently that's moved quite fast recently is deposit volumes and profitability. That feels like the biggest uncertainty when we look forward from a margin perspective. So, if you could talk a little bit about your expectations for deposit pricing mix and volumes, that would be helpful? And maybe we can come on to some of the other margin drivers within the business?

Anna Cross
Just to level set, net interest income is about half of the group's revenue. So, half from net interest income, half from other forms of revenue, including trading. And BUK is about half of our net interest income, so about 25% of the Group, but I appreciate that it attracts a lot of attention.

So, what we observed through the second quarter was that customers were really using their deposits in a very proactive way to manage their financial outgoings and some of the uncertainties that we talked about. So, paying down their debts, actually moving their deposits towards higher yielding accounts. And that's clearly had an impact on net interest margin. We actually think it's positive. It's good for the franchise. It's good for those customers to actually protect themselves in an uncertain environment. So, it's not unconnected with the impairment performance of the bank.

Actually, as we go into Q3, we see those trends persist. So, customers are using their current accounts proactively. They are continuing to migrate their savings as we would expect them to do in this environment. Going the other way, there are two positives. The first is that clearly 2023 has been quite an intense period of mortgage margin compression and we would expect that to somewhat abate towards the back end of the year and into '24. The reason I say that is we know who is maturing at what rate and actually, what we see is an alignment of front book and back book rates over the next six months or so. So that's really important that that drag on NIM will dissipate.

The other thing is, obviously, we've got the structural hedge. We've had a very mechanistic approach to our structural hedge over time. We've got about £50bn maturing next year. The pieces that are coming to maturity are maturing around 1%, so that gives us a real tailwind.

So, we're clearly going through this period of deposit volatility at the moment. That means that the exact tiny changes in assumptions can materially change the outcome. But there are these real positives that are coming through in terms of the mortgage pressure abating and the structural hedge. And I think what's really important here is to stand back and say, not just Barclays, but across retail banking, these are businesses with high returns, we're seeing a period of NIM volatility right now, but we would expect that to stabilise at a point in time.

And I think it's also really important to point out that in this environment, high inflation, high rate environment, we see, typically, a movement of deposits from retail accounts into corporate accounts and of course, given the nature of our book, we're a beneficiary of that. So, we see real stability in the corporate side of the house. We've got [£170bn] of corporate deposits. Very stable. Again, franchise led and delivering a really strong NIM there.

Rohith Chandra-Rajan
And then customer treatment or the treatment of customers and pricing has been a real media focus in particular, but also has got a lot of political focus and some regulatory focus. What are the implications for Barclays? Is it changing the way that you run the business at all?

Anna Cross
Not really. I mean, most of the charter matters are things we were already doing, of course, for our customers. The Consumer Duty that became very front and centre for the media in July is something that we've been working on for years, and actually has been a really big part of our transformation program.

I would say the regulatory focus that's perhaps a little bit different is not about pricing itself, but making sure that it's very clear for customers the rates that are available. So, bringing those front and centre to the customer, that's really important for us to do.

And then I think the real change from customer duty in particular is the requirement to not only ensure good outcomes for customers, which of course, that's what we would always want to have, but to make sure that there is a body of evidence that demonstrates that. So, I think that's the bigger change and one of the reasons why we are so focused on our digital transformation, because actually a digital footprint means that that customer journey is very clear to all. So, I think it's a reflection of what we and others actually were doing for some time.

Rohith Chandra-Rajan
So it's a [modification] if you like.

Anna Cross
Yeah, I think so.

Rohith Chandra-Rajan
And then you mentioned digitalisation in the context of BUK before as a way to drive efficiency. Is that how you think about digitalisation across the group? Is it an efficiency driver, or is it a revenue driver, or some combination of the two? And where are you deploying it most?

Anna Cross
Well, we're focusing it significantly in the UK. And one of the things that we're trying to do is ensure that a customer can go through an entire journey digitally - that's really important. Because it's only when you achieve that you can really start to retire some of the physical infrastructure that surrounds it. So, we're seeing very, very good digital engagement. More than 90% of our transactions are done digitally. Of our higher rate savings accounts, more than 95% of those are being opened digitally, so that is really important. So, I think it is a revenue driver but it's also an efficiency driver. It allows the customer to complete the product journey, stay with you, deepen their relationship, but it's also facilitating, over time, a reduction in the physical infrastructure around us.

I think it's similar in US cards. It's probably an earlier journey for us there because it's more of a monoline. But it would be an area of focus there. And of course, electronification in [Global] Markets has been our focus for quite a few years now and particularly in the technology that we've invested around Prime and Fixed Income Financing, I'd call those out as well.

Rohith Chandra-Rajan
And so following on then, US cards, so you acquired the Gap book last year. You recently announced a partnership with Microsoft, which really, those two things seem to diversify the customer base of that

business quite a lot. So how should we think about that from a growth perspective, but also a capital consumption perspective?

Anna Cross

So we like our US business very much. It's a great business in terms of the diversification it gives us in terms of our consumer business away from the UK. But also, within the US, it provides a broader benefit in the way that we manage the IHC.

We've grown it successfully. You're right. We've put down capability for Gap and now Xbox. That does mean that we've essentially doubled the addressable market for that business. The way we think about it is that we were previously very dominated by travel. And that's only about half of the partnership cards market in the [US]. The rest of it is more in the retail space. So now we've built that capability, it opens the option for more partners to us.

How do we find those partners? Well, our institutional relationships are really important. So, it sits very well alongside our US Bank, our US investment bank in particular. Because essentially what we're doing is we're providing retail customer capability to those institutional clients. So, it's a business that we are keen to continue developing. Noting that it is relatively capital heavy like most cards businesses, so we do it carefully. We do it carefully in the current environment and we're really focused on driving returns through other matters, like what I said on digital efficiency. But overall, a good business.

Rohith Chandra-Rajan

And then continuing with that division, so CC&P, you talked more recently than any time that I can remember in the past about private banking. And then there's been media discussions around plans for the payments business. Could you talk about what your plans are for those two parts of CC&P?

Anna Cross

So our Private Bank within CC&P has been growing very nicely over the last few years. So, quarter over quarter, we've seen good growth in client assets and liabilities, and indeed, investments. And it's a business that made more than a billion pounds of revenue last year, so really growing very nicely.

What we've now done, and we did through Q2, was we picked up our UK wealth business, so an execution-only, retail-focused business. And we've now brought that across to be with the Private Bank. We've done that for efficiency, to allow us to deploy our technology more effectively, and also, just singularity of leadership and focus. So, we feel like we've already got a good basis there to grow from, and you're right, we'll talk about that more in the future, but it's already a successful business, just one that we have some ambition around.

On the Payments business, I mean that's quite unique in Barclays in that it actually touches every single part of the bank. It goes from Personal Banking all the way through to SMEs, corporates, and our biggest institutions. So, it's a great way for us to really leverage the best of Barclays, all of those clients and bring them that payments offering.

I think what we've done very successfully thus far is serve our corporate business extremely well, so large corporates. That's high volume, relatively narrow margin. But what we've done now is built out capability around that, so an e-commerce gateway, support in fraud and fraud analytics, two-factor authentication, all of those things that hold you up now when you try and buy something online, we're trying to support our clients with that.

What we've served less well is actually our SME book. More complex, more fragmented, but much higher margin, so we're really focused on leveraging that too. So, it's a good business, capital light, quite high technology costs. But once that technology is built the marginal cost of the additional client is extremely small, so it’s a business that we want to continue scaling.

Unidentified Audience member
Thank you for the presentation. I just have a quick question. I mean, the US regulator has now scrutinised, or strengthened a bit, the capital requirements, so the [US] banks might be busy with building up capital at some point, which the European banks have done for the past decade. So, do you think there is additional growth prospective for the CIB business or some other areas you can additionally grow in instead of what you have done already?

Anna Cross
So because we operate some of our CIB in the US, we will be subject to the same regulation, as we operate there. That will certainly impact our Banking business and to a fairly large extent our [Global] Markets business, so there may be some differences between the regulation and how it plays out across the jurisdictions. But to be honest, we see ourselves as having to comply with Europe, UK and the US. I think what I would say is that we, like most banks, are very used to operating in that environment of regulatory complexity. I would expect the shape of the businesses, the pricing, etc, to moderate over time as the banks transition through those changes.

I think one thing that it will do is it's clearly making the barriers to entry to operate in some of these businesses really quite high because they're complex, with complex capital requirements and extensive capital requirements. So, to the extent that we feel like we're operating at scale in those business, actually it's relatively positive once we get beyond that transition.

Unidentified Audience member
We heard earlier from HSBC as well, talking about tech investment increasing in the sector. You've obviously talked about the same. The question is whether this is just everyone staying at pace with each other?
Or do you feel actually, with what you're doing, there are things that maybe puts you ahead of the pack or not? I mean, does the consumer or the client, at the end, expect you to do this or is there a differentiation at

the end?

Anna Cross
Yeah, it's a really good question. So, I think you're right, there is an element of technology investment that is just required every year. And I'd call out not just keeping up with the competition but ensuring that those platforms are run really efficiently and securely. So, the investment, I'm sure, across the industry on cyber, for example, and resilience more generally, is an underlying level of investment that we will all need to make.

The question is then, how do you deploy technology to create a competitive advantage? For example, within our UK business, we think it's really important, the Barclays app has more than 10 million customers on it. It has hundreds of millions of interactions every single day. It is a platform where we've seen customer interaction actually increase very, very significantly over time. I think the number of interactions we have with customers is up about 12% year on year. They see it, particularly in an environment of economic uncertainty, the reassuring nature of being able to see your financial position, your incomings and outgoings, I think, is really important. It's important for the relationship, but also, once that person's within the app, your ability to lead them down different journeys and keep those balances within your franchise is really, really important. So our Rainy Day Saver [savings account], 95% of it opened in the app. If we went back to the last time we were in a rising rate environment, that would not have been the case. So, it's a real way to capture your customer.

I think on the other side of the bank, probably the best example I could give you is Fixed Income Financing and Prime. So, as I said, we are a very, very strong fixed income house. What we have chosen to do over a number of years, it's many, many years of investment, is actually run a single platform across Fixed Income Financing and Prime. So those of you who are clients of ours, when your trading desks come to us, they're coming to us through a single leadership team and onto a single platform. We think that's really important.

For you as clients, it gives you a better experience and we get great feedback on that interaction. But from our perspective, it also allows us to see the risk across a single client in everything that they do.
So, it's much better for us in terms of risk management, which ultimately is better for capital, which ultimately means you can recycle that into attracting new clients. So actually, in every part of the bank, it's important. It's a way of life.

Rohith Chandra-Rajan
Perhaps, I could come back with one before we finish. There's been a lot written about a strategic review at Barclays. I think you've commented previously that management goes through an annual planning process. So just can you help clarify in terms of over the next three or six months or so, so about at full year, should we expect much of an update?

Anna Cross

So, it should come as no surprise that we're frustrated and disappointed by the valuation. We don't believe that that reflects the returns capability of the business or indeed the commitment that we're making to shareholder returns.

Every single year, we go through a process of planning the business. Every single business we consider, how do we create the best value ultimately for the bank and for the shareholder in that business. And the type of questions we ask are our right to win, our ability to deploy capital effectively and get a return on that capital, and really, where should we be deploying our technology investment, for example.

This year is no different to that. What we have is, I would say, a bit of external involvement. We haven't focused them on one part of the business over another. They are helping across the board and I think that independent challenge is really important. It's something that we deploy in the business fairly regularly. This time, we're using it through the planning process, but we're extremely focused on delivering value, delivering the best possible returns for every business that we run. And as I said, we'll come back in time and talk about our ambitions.

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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.

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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.

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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.