Barclays Global Financial Services Conference

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Transcript of fireside chat with C.S. Venkatakrishnan, Group Chief Executive and Anna Cross, Group Finance Director of Barclays

(amended in places to improve accuracy and readability)

Jason Goldberg, Barclays

Good afternoon. I think I know most of you, but for those that I don't, I'm Jason Goldberg, and I cover the US Large Cap bank stocks here at Barclays. Thank you for attending our 22nd Annual Global Financial Services Conference. The feedback so far from the presentations and meetings this morning has been terrific, and I'm sure the rest of the conference will measure up. We have over 190 companies participating. I'm told over 5,000 individual meetings, which is a record. So we really appreciate your participation with everything.

I'm very excited we get to showcase Barclays at lunch this year. Barclays' vision is to be the UK center leader in global finance. It is a diversified bank with comprehensive UK consumer, corporate and wealth and private banking franchises, a leading investment bank, and a strong specialist US consumer bank.

Earlier this year, Barclays announced a new three year plan to create a simpler, better and more balanced company, aiming for stronger returns, greater shareholder distributions and operational excellence by having a simpler structure, better operational financial performance and a more balanced business. Results so far have kept pace with the 2024 and 2026 financial targets relayed to the market. My wife is taking notice.

I'm very pleased to welcome Venkat and Anna back to the stage this year. Venkat has been Barclays Group Chief Executive since November 2021. Prior, he was Head of Global Markets and Co-President of Barclays Bank and was Group Chief Risk Officer before that, while Anna has been Group Finance Director since April 2022. So perfect business mix, two perfect resumes, should make for a very fruitful discussion. So Venkat and Anna, thank you for joining us today.

C.S. Venkatakrishnan, Group Chief Executive

Thank you.

Anna Cross, Group Finance Director

Thank you.

Jason Goldberg

I guess maybe the best place to start, and I alluded to it in my opening remarks, is the three-year plan that you laid out for Barclays back in February. Maybe you could start with a recap of the key elements of that plan and just how you feel about the progress so far now that we're a few quarters in.

C.S. Venkatakrishnan

Thank you, Jason. Thank you, first of all, to all of you for attending. Wearing my hat as the CEO of the bank, we are very, very grateful for the way in which all of you in your different ways, different capacities, different organisations interact with Barclays. And we are proud to serve you as our clients and to thank you for your business. So thank you for attending.

Jason, there's an English term called 'spare your blushes', which means I'm going to embarrass you. But twenty two years running this conference is a real achievement. Sending out the morning email for twenty-odd years is also a great achievement. And that Bloomberg article is a great achievement. So thank you and to your team for organising this.

Jason Goldberg

Now I am blushing.

C.S. Venkatakrishnan

I have learned some English terms since I joined this bank. So thank you everybody again. The elements of our plan for which we presented in an Investor Day on the 20th of February this year were basically three-fold. It was to capitalise on the business footprint that we've been building, the earnings generation power that we've been demonstrating and the capital returns that we have been sharing. And it was trying to capitalise on it in three ways, three simple measures.

One was to target an RoTE of greater than 12% by 2026. We produced roughly 10.3% in 2023. And in the two quarters so far this year, we've been showing at our target of 10%-plus for this year.

The second was to return £10bn - plus to shareholders. So greater than £10bn, again, by 2026. I'm happy to say so far this year in the midterm, we announced a £750m buyback and which when you add it to our dividends, equaled about a £1.25bn capital return so far this year.

The third, which was in some ways perhaps the most significant and notable part of this because it facilitates the other two, is to have the Investment Bank, which is about 60% of our business as of 2023, shrink to around 50% of our RWAs by 2026. And this was not to come by shrinking the Investment Bank in absolute sense or reducing businesses or reducing footprint. It was to come from growing around it. So to grow in our corporate world and retail businesses both in the UK and the US.

And in particular what we said in February was that we would invest about £30bn of risk weighted assets into what are primarily our UK-centered businesses. And so from our capital generation, having returned to shareholders what we said, £30bn into those businesses. Those are our goals: higher growth, RoTE, capital distributions of greater than £10bn, and then the rebalancing of the bank. And so far in the first two quarters, we've been delivering according to that plan.

Anna Cross

I think the other thing that we're trying to do, Jason, is just be very consistent and very clear with the way we explain that to the market so hopefully people will get used to the formats that we're using, keep coming back quarter and quarter out to those targets that Venkat's just alluded to. And we're only two quarters into a twelve quarter plan. I don't know where that leaves us on your marathon analogy, but we're certainly in the early parts of that marathon.

But personally, I'm looking for a real increase in the stability of our income and the quality of that income. And in the second quarter, we upgraded our guidance around net interest income, and I'm sure we'll come back to that. We're seeing very, very good credit performance. And that's a great basis from which we can grow and really put those £30bn of RWAs to work.

The thing, of course, we can control best of all is costs. So Venkat and I are very focused on delivering the efficiency targets that we've set out. You put all of that together, that puts us right in the middle of our capital range and is really facilitating the kind of distributions that we aspire to.

Jason Goldberg

The market has clearly reacted well to the plan. Barclays' shares are up, I think last I looked, over 40% since you kind of came out with the plan. Maybe you tell us what is different this time in the way you're kind of running the organisation, and how have you gotten your colleagues behind the plan?

C.S. Venkatakrishnan

Look, rising share price helps get colleagues behind the plan. But that's not an important input. The most important thing for us is a very disciplined focus on execution. We've laid out these parameters. We've laid out what we want the Investment Bank to be. We've laid out what we aim to invest in the rest of our businesses. We know what returns we aim to get both at the group-wide level, the bank-wide level and at the individual businesses. We have shared with you an organisation and a reporting in five major divisions, which we think gives clarity to you and to us on what we're expecting in each of the divisions and how we hold ourselves accountable for it. And what we aim to do is in a very disciplined manner, in a steady manner, in a repeatable manner, hopefully with no surprises, produce those numbers.

Now, I've been in the business three decades, and I know that we are in an industry that suffers from volatility. And so we've got to be agile enough and have enough buffers to adjust to changing circumstances, changing demands and changing business complexion. But within that we aim, as I said, to produce these numbers in a sustained way. And Anna and I and our management team, some of whom are here, aim to spend a lot of time just on that.

Anna Cross

And I would say that there are some operational changes that underpin that, Jason. So Venkat and I have set apart a very small transformation office who we meet with weekly. We've changed some of the remuneration structures around the bank. But I think it's just that real clarity and crispness and alignment between the external focus and the internal focus has really helped. And I think for our colleagues, they see that progress.

Even on our Q2 reporting day, we ended up reporting into a pretty volatile day, but it was really good to see the, if you like, the excitement and the pride around what was a really good result, even though the share price came under some pressure on that day. So hopefully the other thing that folks can see is that we are being very open about what's going well and where we feel we need to lean in a little bit more. We are very focused on running our own race. As a team, we have set out targets, and so we're going to be tough on ourselves as we go.

Jason Goldberg

Let's start with the UK and go a little bit deeper into your growth ambitions there. What gives you comfort that this is the right time to kind of lean into growth in the UK? And where do you see the biggest opportunity to take share as you deploy that additional £3bn of RWAs you referenced?

C.S. Venkatakrishnan

£30bn.

Jason Goldberg

£30bn, yeah. Sorry.

C.S. Venkatakrishnan

If it was £3bn, I would have declared victory by now. There's a lot in that question, Jason. First of all, let me tell you, I come from a philosophical place on this, where if you're going to be a strong, relevant, successful global bank, you've got to have a strong home base and where you are an important part of society, an important part of all the different economic activities from basically retail banking through businesses, corporates, wealth and investment banking. And we are that in the UK. And so it makes sense to invest further to strengthen further on it, strengthen it.

Second, at a macro level, it's been eight years since Brexit. We think on both sides of the continent, you will still see newspaper headlines. But people have made, a) psychological peace with it; and b) the trading relations are normalising in a sort of more predictable way.

Third, we had in a way, and I can blame myself first because I was the Chief Risk Officer at the time of Brexit, reduced our risk appetite towards the UK coming out of Brexit. We were concerned about economic activity. We were concerned about trade relations. We were concerned about the consumer situation. All of those things have worked out relatively well and even through Covid. And while the UK economy is not growing as strongly as the US is, it's not as weak as certain parts of Europe. So all of that and our brand and our presence for three hundred years gives us the confidence that we can do this.

Now we've made an important downpayment towards the £30bn, which is [that] we acquired a portfolio to close in a couple of months from Tesco Bank, or we acquired Tesco Bank's credit card portfolio, which is about £8bn of that £30bn in RWAs. But across the board, we've got a fairly strong share in mortgages, but we continue to want to grow it in credit cards and personal loans and small business loans and the Corporate and the Investment Bank. You should expect to see us both there and in our Wealth business, continue to invest and grow our presence in the UK.

Anna Cross

I think it's important to note that when we set out our plan in February, our expectation is that the UK balance sheet gets smaller before it gets bigger, because we've got some big known maturities in 2024 that relate to Covid-era lending, whether that be in our personal banking customers or indeed across business or corporate banking. But what's really important, as Venkat says, is that our amount of gross activity has picked up. So approvals for mortgages in the second quarter were about 20% higher than they were in the first quarter. And we see a mortgage market in the UK which is more stable, more robust than we saw last year. Credit cards, we've welcomed an extra 0.5 million new accounts to Barclaycard in the first half of this year. So it feels like we're making the right sort of gross progress, and we're going to see that translate into the balance sheet in time.

C.S. Venkatakrishnan

And I'm sure you're going to ask me more about this, but let me just sort of preview it. I think one important consideration for us in February was that we knew the UK was going to come into an election year. But we were fairly confident that whether it was labor or conservative, they would be pro-growth. And so far from what we've seen in the new Labour government, they are pro-growth. And so from an economic outlook, it's sort of aligned with what industry broadly and the banking industry would like to see.

Jason Goldberg

Maybe the next question, could you just walk us through the progress to date against the deployment of the £30bn RWAs so far this year?

C.S. Venkatakrishnan

Yes. You want to start?

Anna Cross

Yes. So as I said in February, we did expect that the balance sheet would get smaller before we get bigger, but we see good gross activity in mortgages. And one of the things that we're doing here [and] one of the opportunities that we saw, was actually to do a little bit more in the higher loan-to-value mortgages. Actually, the market is certainly good for that because we're seeing, as I said, a bigger and more stable market for mortgage lending in the UK.

And a couple of years ago, we bought a business in the UK called Kensington [Mortgages Company]. And we were really able to leverage that risk expertise as we lean into that part of the market. And that's really good for us because it's richer in terms of its margin and it's also a part of the market which we've been smaller in historically. So, really good for our mortgage results overall.

In UK credit cards, as I said, we've onboarded about 0.5 million new customers, and with Tesco, we'll get another increase in terms of both loans and cards. But what's important here is really our focus on UK cards is not just now on lend but on spend. So we're leveraging some of the capabilities that we have really fully here in the US around partnerships and bringing that to the UK not only for Tesco, but for everything that we're doing around Amazon and also Avios with British Airways. So all of that is adding to that gross activity in the current year.

So we feel good about it. I think we'd expect our progress in business banking and corporate to sort of lag that in personal banking. So good momentum there, too, but you're going to see it in personal before you see it come on the wholesale side.

Jason Goldberg

Got it. Maybe one area of focus among investors at the moment is just managed risk income , given the shifting interest rate backdrops. Maybe sticking with the UK. Now we have seen the first cut. What are your expectations?

Anna Cross

One of the really important parts of our financial story, particularly for the UK businesses, is our structural hedge. And really, that structural hedge there is there for risk management and to stabilise net interest income both on the upward part of the rate cycle but also on the downward part of the rate cycle. So for the first time in a long time, we published some rate sensitivity as part of our Q2 results. And what you can see in that is that our sensitivity to a downward rate path is significantly mitigated by that structural hedge. And with every passing quarter, what's happening is we are reinvesting the maturing part of that hedge, which has been maturing at a yield of around 1.5%. And that means by the end of the second quarter, we've already locked in £11.7bn of income from that structural hedge between 2024 and 2026. At the end of the first quarter, that was £9.3bn.

So that hedge is there to protect us. And actually, if I take that hedge momentum, combined with what we've seen around the kind of stability in deposits overall, so in the UK, what we've seen is a stabilisation both in the level of deposits but also in the composition of those deposits. That gave us the confidence to upgrade our

NII targets for this year, both for Barclays UK and for the group as a whole. So updating Barclays [UK] you get to c.£6.3bn and the Group to c.£11bn, and that doesn't include the Tesco acquisition. So really for us, we continue to react to the market environment around us, but we see a real stabilisation in deposit behavior, and that structural hedge is really doing its job now.

Jason Goldberg

Maybe turning to the US but staying with consumer. I guess kind of mixed economic signals. Unemployment rate's kind of ticked up recently. Maybe just talk to your outlook for credit charges in the US consumer bank and just the impact on the division's profitability.

Anna Cross

Why don't I start, and I'm sure our previous CRO will add. So last year, as we looked at the longer term macroeconomic concerns for the US, we knew or we expected an increase in unemployment, so we really got ahead of that. And we did that in a couple of ways. The first is by increasing our reserving. So even whilst our write-offs were low and stable, we started increasing our reserving for the US cards business. And actually, that's panning out as we expected. So now we're starting to see an increase in both delinquencies and write-offs, but our overall reserving level is coming down. But it's not just the reserving that we adjusted. We did actually change our view of credit lines, particularly at lower FICOs. So we made some adjustments there, and that's definitely protected where we are now.

So as we look now, we still expect for the overall charge of this year to be lower than last and the charge in the second half to be lower than the first half. And really we see this business on a kind of historic longer term trend of around 400bps . But one of the things to note about our portfolio is it's a relatively high FICO portfolio. The FICO is about 750 on average. Only 12% of our portfolio is less than 660. So that means that maybe some of the trends that we're seeing here are perhaps a little different.

C.S. Venkatakrishnan

Look, I completely agree. I think part of it is the modeling, but more importantly, it is that risk management muscle that you've got to flex. And retail portfolios move, let's just say slowly, more slowly. So what you've got to do is get ahead of it. So late last year when we were anticipating the impact of the rate rises and the ultimately softening of the economy, we took some marginal action on credit risk exposures in the US cards business and that I expect will help us in the coming quarters and has already helped us.

Jason Goldberg

Maybe turning to a business near and dear to my heart, the Investment Bank. You said that you plan to grow revenues on a broadly flat capital base over the next three years. How do you plan to do that?

C.S. Venkatakrishnan

So it's the one question which we get a lot. How do you plan to grow revenues? How do you plan to increase market shares? And how do you plan to do it on a broadly flat capital base? It basically comes down to two things. One is improved efficiency within the business and how you allocate capital to the higher returning parts of the business. So one measure we've used in the banking side of the house is return per unit of RWA. And that has seen a 40bps improvement in the first two quarters of this year, simply because my colleagues in the Investment Bank have been allocating capital in a much more disciplined way than a year ago. So that improvement in efficiency, which we expect to continue, is one important part of it.

The second important part, which we measure much more on the trading side, is how relevant are we to clients. And one simple measure is of our top 100 clients, for what fraction of them or what number of that 100 are we in your top 5? Now as a global investment bank, we are number six. We are number six in markets.

We are number 6 in banking. So if we are number 5 with somebody, then it's slightly higher. And so the question is of the 100, how many are we top 5 with? We've crossed 50 now. So for over 50 of our top 100 clients, we are in the top 5. We started at 30 a couple of years ago, and we aim that number to be 70.

Given the bank that we are, we can't be everything to everybody. And so we've got to choose, and we are concentrating resources on our biggest clients and aiming to have even greater market share with them. And as I said, that number has moved from 30 over to above 50, and we are looking for it to go to 70, and that is by continuing to do more across the space.

The third thing, coming back to banking, and I'm hopping back and forth, is the broadening of our business from more being a DCM house, which we are very strong in in leveraged finance, into equities, ECM and M&A. And you might have seen some large transactions we were involved with, so it's good. More to go. But that's an important part of the transition. And a similar transition in markets is in three areas: equity derivatives, securitised products and European rates. On two of the three, the first two, equity derivatives and securitised products, we've shown fairly strongly progress so far, and European rates is coming along.

Then what I would say lastly is whether it's in banking or whether it's in markets, it's important to have a financing business to complement your creating business. In prime and in fixed income financing, we've been growing our market share in the market side and then continuing to develop a corporate bank, an international corporate bank on the banking side. So all of this leads, we think, to better income, more stable income, more capital efficient income and to get to the results we'd like, which on the face of it are very difficult, but I think if you do it well, possible.

Anna Cross

I think the other thing I'd say, Jason, is that we were really careful when we put our plans together not to be too reliant on any change in the market wallet. Obviously 2023 was sort of challenging pretty much across the board. But we've assumed in all of our plans that banking gets back to something like a 10-year average and markets was flat. So any tailwind we see from the market will be exactly that.

And just a shameless piece of advertising. We are going to do a deep dive in investment banking on the 1st of October. So if you want to hear from our co-heads of investment banking, Cathal and Taylor, then please sign up for that.

Jason Goldberg

I will. Can you expand on market's performance year to date and how are you performing against the plan and maybe what are the key focus areas?

Anna Cross

I think we see a strong alignment to the broader market. Actually, our markets business overall in the second quarter was up 6% in US dollar terms, which is how we try and measure ourselves. And that's very much in line with our US peers. And within that, we saw a 24% growth in our equities business, which was really strong.

C.S. Venkatakrishnan

Yes. It's appeared, there are sectors in which we are concentrating: equity derivatives, securitised products and European rates. And the first two, equity derivatives and securitised products, are being helped by both the chase for assets in the case of securitised products that you are seeing and in equity derivatives by the volatility that you're seeing in the markets. And I think we aim to be very strong in the areas in which we focus.

One of the things we said in our Investor Day is we were also disciplined about what we do not do. We broadly do not have emerging markets presence across countries. We trade emerging markets, which we traded largely out of London and New York, a little bit out or Mumbai and Singapore. We are not in commodities, and we are not in equities in Asia. So within the footprint which we have, we aim to do very well. And that discipline is really important.

Jason Goldberg

Got it. I have a question on expenses and a question on capital, but then we're going to go to the audience. I'm going to give you guys a heads up to start thinking of questions to ask now. But on the earnings call, you talked about the importance of cost discipline and certainly seeing progress particularly against your efficiency ratio targets. What are some of the key areas of focus there?

Anna Cross

So cost discipline's really important as part of this plan. It's the thing that is probably in our greatest locus of control, and Venkat and I feel that very deeply. I think important to recognise here, though, that this is a plan about efficiency. Our north star is RoTE, greater than 12% RoTE, and therefore our north star is efficiency and the cost income ratio. So we've talked about an income number of £30bn in 2026 and a cost number of £17bn, and we would expect to flex those two in alignment with one another. So that's really important for us to think about. And in the first half of this year, we've delivered 63% cost income ratio, and that's the sort of broader target we've given for the year.

And really what we're trying to do here is drive gross efficiency benefits in order to enable investment in our businesses. So in the first half of this year, we've delivered a little over £400m of those gross efficiency targets, and we've got very, very good line of sight to a full £1bn for the full year. Really what that's allowing us to do is to invest behind the growth that we've talked about both in the UK but also in our US business and in the IB. So that's really important. Because we do expect to keep growing our US cards business. We do expect to keep growing our UK businesses. So this is not an absolute cost down plan. This is about using our costs very wisely to drive growth.

I think the other thing I'd just note is in the second quarter, we actually had for the first time positive jaws for a long time in our IB business. Clearly over time, our objective is to improve the returns of this business. So more often than not, you should see us trying to do that. And that's not about not investing. It's about continuing to invest, but really leveraging those opportunities to drive income faster.

But in the current year, we're very, very focused on people, property, infrastructure. They're probably the big three streams for this year. And sort of longer term, just taking customer and client journeys one by one and really looking at how we make those extremely efficient not only for the bank but for our customers and clients.

C.S. Venkatakrishnan

All I'd say is the bank has figured out that their CFO is Scottish.

Anna Cross

I can't believe you said that.

Jason Goldberg

No comment.

C.S. Venkatakrishnan
Cost discipline.

Jason Goldberg

I guess in talking with investors, I think one of the things they've been most pleased with is capital returns. And just maybe looking out, how are you balancing the various demands on capital across Barclays, including investments, regulation? And just what can shareholders expect in buybacks and dividends this year?

C.S. Venkatakrishnan

So I think the important thing for us, which we've been trying to communicate, is there's a waterfall on capital. The first and most important use of capital is for us to be a well-capitalised, well-run bank. We've said that we will operate in a 13% to 14% CET1 ratio [range] We produced 13.6% at the end of Q2, so we're well in that target operating range.

The second use of capital is the target which we've said of £10bn or more to our shareholders. And then after that, the third use is towards investment. Now we believe according to our plans that we can satisfy all three uses and have reasonable investment in our businesses, including the £30bn in RWAs we spoke about. But that is the waterfall. Be well capitalised first. Second, use it to meet what we've said to the market, the guidance we have given, about £10bn. And third, to use it to grow.

Anna Cross

So if you look at the first half, we delivered about 80bps of capital generation. So that's allowed us to do all of those things and deliver the £1.2bn that Venkat talked about. That's flat year-on-year, by the way. And our expectation for this year is that we will deliver broadly what we did last year to shareholders.

The way we're doing that is through a £750m buyback, which is well progressed, but also through holding the dividend flat in cash terms, but the buyback is clearly flowing through to increase that dividend per share, which is around 7 point something percent growth for the dividend per share. So this is a formula that we'll continue to deploy as we go through delivering that greater than £10bn.

Jason Goldberg

Got it. Any questions from the audience? I see one.

Unidentified Audience Member

Can I follow up on Anna's comment about wanting to grow US credit cards. You've got a good business here. It's focused on [retail] partnerships. So a couple of parts of the question. Firstly, if you could give us an update on what you're expecting and seeing in terms of delinquencies and charge-offs in the second half. And then secondly, how you see the environment for potential new partnerships. What's the competitive environment like? Arguably, a big competitor, Capital One, is focused on an acquisition. Thank you.

Anna Cross

So we saw a reduction in delinquencies in the second quarter, but in large part, that's seasonal. So, it feels like seasonally adjusted broadly a stabilisation in deliquencies. I'd expect delinquencies to sort of tick up in the second half, but only in alignment with normal seasonal spend. So when you see that holiday spend coming through particularly in the fourth quarter, we might see a modest increase. But that's all captured in the guidance that we've given you. That feels like it's stabilised a little.

I think in terms of the write-offs, we had a really good slide actually in our second quarter deck which we can show you that shows that trend in write-offs. You see that elevation in write-offs coming through, but just because of that early action we took in terms of reserving last year, the overall charge is coming down in the second half. That's still our expectation is just a greater proportion of that's coming from real write-offs as opposed to reserving.

C.S. Venkatakrishnan

As far as the competitive environment, look, it's strong, even though there are types of accounts and types of competitors who are in and out at various points. The important thing is we set out in our Investor Day, we said we started around with $30bn of assets. We expected it to grow to around $40bn by 2026. We expected some of that to come from the growth in the existing stock. And we also said over a three-year period, you've got to assume that there may be one or two add-ons and maybe one subtraction in terms of accounts. That's the normal way things are. And so we still feel comfortable about that target.

And you try to do this by running a good business, a good business that is responsive to the needs of your partnership clients. An important thing for us in the US is that we don't run our own brand. So the important aspect of it is with 20 million customers, 20 corporate clients, about $30bn in assets, what we are trying to do is to focus and deepen the engagement that the cardholders have with the corporate clients on whose behalf we run the partnership. And we think we're good at that, and that's what we aim to use as our way of managing the business.

Anna Cross

If I may add, just one really key part of our strategic progress here was in the first quarter, we did an SRT trade with Blackstone. That's a really important part of the story because it allows us to continue to grow with and on behalf of our partners in a business that's quite capital hungry. So we can really balance those growth ambitions with being able to manage the overall capital that we deploy into the business. So that was a really important proof point for us.

Jason Goldberg

Other questions? I see one in the back. Oh, maybe not. I guess Venkat, you mentioned Tesco. Anna mentioned Kensington [Mortgages Company]. I guess, what role do acquisitions kind of play as you think about the future of Barclays?

C.S. Venkatakrishnan

Our ambition is largely organic. And this plan has been built on the assumption that we can achieve what we want to do organically. Having said that, particularly where we look to deploy the £30bn in RWAs, if there are acquisitions that either add to scale or to capability or both, and they're reasonably priced and they're manageable and digestible and don't deviate us from the execution focus of this plan, we'll look at them. Tesco has added scale, maybe a little capability. Kensington Mortgages [Company] has added a lot of capability, and we have to make the scale happen. So absolutely we are open, but it has to be a very special asset to fit all the things I laid out.

Jason Goldberg

Questions from the audience?

C.S. Venkatakrishnan

I'm surprised nobody has mentioned the B word yet, Basel. That's a hint.

Jason Goldberg

I guess on that vein, we'll hear from Vice Chair Barr tomorrow. I guess speculation is we'll get a 400 page document next week, at least in the US.

C.S. Venkatakrishnan

We'll have ChatGPT go through it.

Jason Goldberg

I guess maybe what have your expectations, clearly in the UK has kind of pushed out portions of their capital proposals. The US I suspect will push out and water down its expectations. I guess first off, how does that kind of impact Barclays? And then just bigger picture, how does this kind of this capital arbitrage you think play out?

C.S. Venkatakrishnan

What I think we are all hopeful for is that sometime by the end of next year, we know time, quantum and sort of complexion across regimes of capital. And our hope, which we've said to regulators on both sides of the Atlantic, is that between the UK and the US, the UK being our home regulator, the US where many of our businesses are regulated, that we have roughly the same amount of capital for a particular type of business, and it happens at roughly the same timing. And so far, we've seen nothing to the contrary, but we are all glued to the telephone to see that we get that.

Obviously in the US, we'll have to see what comes out. And I don't know if it is a complete rewrite or a partial rewrite of the originally proposed rules, but we do hope some of the idiosyncrasies of the first formulation get reduced. And on the UK side, we hope to see something that's roughly consistent. Generally speaking on the market risk side, because investment banking is an important activity for us and trading and activity in the UK as well as here. And similarity especially on the credit side.

Anna Cross

I'll just add that we expect to hear from the UK regulator on Thursday. So that's the date that they've set aside. So obviously we will be digesting that one first before we get to the 400 US pages. As Venkat said, we'll update when we've got all of that. We previously guided to between 5% and 10% of RWA impact, lower end of that. I think we'll obviously have the opportunity to update that when we've had the chance to absorb those two mighty tomes that are headed our way.

C.S. Venkatakrishnan

The next month is important.

Jason Goldberg

Did I see a question over there?

Unidentified Audience Member

Anna, what's your view on gen AI and its importance within the industry? And how is Barclays preparing or looking to utilise it?

C.S. Venkatakrishnan

So this is clearly the capabilities which it gives people a changing , it's an inflection point in technology. We have been spending a fair amount of time across the organisation and at senior levels trying to identify exactly what that potential is. And we do this in two ways. One is to have a lot of little projects on the ground, mostly chosen by our employees who have been given the tools to try to find ways to do things that they are currently doing better or identifying new things. And we examine them on a periodic basis, meaning every three months, we get a list of projects at three to six months. And then we try to back what we think are the most promising versions of it.

Equally at the senior level, every member of the executive committee owns a sort of large project in their area to try to understand the potential. And what we've seen when we looked at that is also there are common commonalities. And look, it goes to efficient production of reports and materials, better customer service, better understanding of common patterns of behavior where you care about behavior above all else. And those things are common across many parts of the business. What I'm not sitting here and telling you is that I expect it will drive an efficiency of *X* or a cost savings of *Y*. I think it's early. It's important to talk at those things but to run the organisation better. And we are trying to get it in a way that's a little more grassroots, but with a fair amount of ownership and guidance from the top.

Jason Goldberg

I used it to help write my intro. Other questions? I see one in the middle.

Unidentified Audience Member

Could you give more detail on growing the non-investment banking part of the business to more closely match [in Investment] Banking? You talked about the 60% contribution of Investment Banking today and getting it more towards like 50% through growth. What's the biggest driver of the growth there? Is it cards? Is it banking? Is it high street banking? Where do you see the most opportunity to accelerate there?

Anna Cross

Thanks. So probably the biggest part, which reflects our existing footprint is in retail banking, so in high street banking. Really, we sort of called out two big areas within there. The first was not only the mortgage business, because the mortgage business in the UK is significantly intermediated. So nearly 80% of the market goes via intermediaries or brokers. So our ability to grow there is kind of beyond that of our existing footprint. And particularly with a second brand in the shape of Kensington [Mortgages Company], that really gives us good growth potential there.

And there were particularly pieces of that market where we were less represented, in part because of our capability but also because of our risk appetite. So particularly higher loan-to-value mortgages. And through the acquisition of Kensington [Mortgages Company] , that's really given us that capability to enter that part of the market more meaningfully in a safe way. The good thing about that, it has a richer margin than the lower loan-to-value mortgages. But our mortgage book overall has a loan-to-value of just over 50%. So it's a very low risk book with an opportunity really for us to sort of expand and have a more fully risk aware range. So that's a big opportunity and something that we've leaned into in the first half.

The second is unsecured. So post Brexit but also post-Covid, and as a result of some changes in the conduct regulation in the UK, we've really reduced our unsecured balances particularly in cards. They are more than

40% below where they were. So we've got a real opportunity here and a 50-year heritage in Barclaycard with one of the biggest brands in the UK to really take that back.

And so we're doing that organically. If I look at where we've been in terms of our pricing in the first half of the year, we've typically been in the top three very consistently through that first six months, but also inorganically through the Tesco acquisition. And Tesco in one single transaction gives us £8bn worth of unsecured balanced, split roughly half and half between loans and cards. The really good thing about that is as customers, they look very much like our existing customer base in terms of risk profile. So it allows us to meaningfully change our share without going out the risk curve. So that's a big important part. And of course, once we have that expanded customer base in the UK, we then have the opportunity to deepen that relationship with them. So they're probably the two biggest pieces.

The other things that we're very focused on, though, are in our business banking and corporate banking businesses. So our loan to deposit ratios are very low in both of those areas, almost the reverse of what we see in our investment banking business. But here, you've got a loan to deposit ratio which is around 30% in both of those businesses. So we've got the relationships. We've got the cash relationship. In many instances, we've also got the acquiring relationship. So that gives us the opportunity because we know those clients to really sort of lean in.

The reason I said before I'd expect that to lag a little bit is just in the UK across our corporate sector, from the very smallest to the very biggest, there are very, very high levels of liquidity in the corporate market. And the second thing is, we really need to work here on our digital capability for both sets. So if you saw the opportunity to see our corporate deep dive in June, very much what they're leaning into is bringing all of the lending opportunities to those corporate banking clients in a digital, very efficient way. So one of the things Venkat and I are focused on is what's the pipeline? How long does it take them to close the transaction, et cetera. Really focused on making it easy for the client to deal with us. So I'd say primarily high street banking, then into the sort of more wholesale side. But we're confident in our ability to deploy that, and I'd say the signs so far are pretty good.

Jason Goldberg

Take one more question. Right in the middle.

Unidentified Audience Member

Thanks. Your new government has put a lot of focus on growth, which I fully understand. One big part of it is trying to rejuvenate the housing construction sector, which question is, are the resources there in both the construction management and construction labor to provide a meaningful increase, assuming that the planning issues could be addressed? And given the lead times, is this one that I would look to produce a meaningful change in the outlook for your mortgage business for the next few years?

C.S. Venkatakrishnan

I'll let Anna answer the second question. On the first question, I think it is a journey that has got to start. One of the biggest constraints in the UK about the development of better housing stock or more housing stock have been some of the planning rules and the ability to actually expand in these so-called greenfield areas. So the capital is there. I think the talent is there. Labour is an important question because a lot of that kind of labour came from European countries pre-Brexit and they've got to find a way to get it back in. But it has to start.

If you look at the composition of the average UK person's monthly expenditure on housing plus energy, it is higher than it is in many other developed countries. And by the way, on housing, it's not because mortgage rates are high. It's because house prices are higher than they should be. And I think that has got to be what has got to be addressed. Now if that is addressed and it's addressed well, what you can imagine is that you would see a fair amount of consumption and investment-led growth in the economy. And when you look at the longer term in the UK, putting a demand that this be addressed, having it be addressed and then the confidence will really drive a huge amount of our own broader confidence in the UK. So I'm very hopeful. It's not going to be easy, but I'm very hopeful.

Anna Cross

Completely agree with that. I think you're not going to see an immediate change in the scope for mortgage lending in the UK. But I think the really good thing is that they're taking a longer term perspective of this and really thinking about this in terms of the infrastructure. So we would hope to participate in that. And particularly around much of the housebuilding that we would want to see would definitely be more towards that first time buyer sort of end of the market, which is really what drives a healthy housing market. So we would look with Kensington [Mortgages Company] to be able to address that in breadth.

Jason Goldberg

And I guess maybe I'll take the last question to [ensure] no good deed goes unpunished. But we've definitely seen improvement in the valuation of Barclays, yet I kind of look at the banks, the US banks that I cover and still at a discount to several. But while the market's got some of it, I guess [what] do you think the market is kind of missing?

Anna Cross

I think with every passing quarter, we have to demonstrate the stability and improvement in the results that we deliver to the market. The way we see it is that the stock price is an output. And so this is really about credibility quarter in, quarter out, consistency of what we deliver and report.

C.S. Venkatakrishnan

So I'll answer that question in three different ways. The first is what do we do as a matter of self-help, and that's exactly what Anna said. We've laid out a strategy. We've laid out what we think are reasonable and reasonably ambitious measured ambition. Targets of measured ambition, we need to deliver to that. That's us.

The second is, and this is true of the UK and it's true broadly of Europe, but I'll begin with the UK where we are based, is people have to have faith in the environment. And I think there's a lot of good reason, which we've covered, to have faith in the environment. The government is pro-growth. We think the government is friendly to this industry.

But critically in the UK, three things. One is to recognise that the financial industry is in the national interest of the UK and for people to say that and acknowledge it and behave as if that was the case. The second is that we are going to get stability in the capital regime, which hopefully we will see soon. And third, stability in the consumer regime, which I think it's an earlier journey, but we're going to see it. So the first one was self-help. The second one was the environment in the UK.

The third thing which all of us deal with is what is happening because of, what I would call, capital segmentation in the broader world. Obviously, the capital markets in the US have been the most attractive. They have grown the most. So capital is allocated here. If you are part of the S&P 500, you get dollar for dollar more lift than if you're a member of the FTSE or the DAX. Now we are a proud three hundred year old UK bank trading on the FTSE. But the equity risk culture in the UK has to improve and people have to allocate more, which will also come from growth and will come from better listings in London. We as a bank are working towards that third as we are working towards the second. So self-help, the environment in the UK, and equity risk culture in the continent to catch up to what it is in the US.

Jason Goldberg

On that note, please join me in thanking Venkat and Anna for their time today.

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