

**Morgan Stanley European Financials Conference****12 March 2024****Transcript of fireside chat with C.S. Venkatakrisnan****(amended in places to improve accuracy and readability)****Alvaro Serrano, Morgan Stanley**

Thank you very much, everyone, for coming to this third session. I'm very happy to introduce Venkat, Group CEO of Barclays. And it's great timing because you've just obviously laid out your plans for the next 3 years. Before we dive into the questions, we're going to have the usual polling question if we put it up on the screen. What do you think is needed to close the gap between the 0.5x trading multiple in the tangible book value?

- #1, Barclays Group demonstrates it can reach over 12% ROTE in 2026;
- #2, at least £10 billion capital return is paid out between '24 and '26;
- #3, UK income trough in the first half of '24 and growth thereafter as forecasted in the 3-year plan;
- #4, Investment Bank posts profitability in line with the group by 2026; and
- #5, U.S. Consumer Bank posts profitability in line with the group by 2026.

Keeping it pretty simple, Group above 12%.

**C.S. Venkatakrisnan, Group Chief Executive**

That's how I would have voted.

**Alvaro Serrano**

Yes, great. You've just obviously presented the 3-year plan, so it's probably a good idea to start with that. As well as the targets, lots of things in it, with the new disclosure and divisional breakdown. Maybe to start with, what would you run us through? What would you highlight as the main takes of the plan this year that we should think about?

**C.S. Venkatakrisnan**

Hello. First of all, Alvaro, thank you for having us here. This is a great conference, and of course, we follow your research and what Morgan Stanley does extremely closely, so thank you very much for having us here. And it's a great pleasure to be with you. Of course, the timing has been excellent.

Our Investor Day focused on 3 important messages. And just by looking at your voting, I think we've landed the first one reasonably well, which is that we aim to have a greater than 12% RoTE by 2026. It's a 3-year plan. We produced something like a [10.6]% operating RoTE in 2023. Statutorily it was [9.0]% because we took some structural cost actions. We are expecting an operating RoTE this year similar to 2023, but on the path, as I said, to greater than 12%. That's message #1.

The second message, which was also in your polling question is, on that basis of those returns, to return capital, both in share buybacks and dividends, of greater than £10 billion by 2026. Again, over the next 3 years, '24, '25, '26. And just for context, that number in '23 was £3 billion.

The third big message is the proportion of the Investment Bank, as we've constituted it now, falling to 50% over the next 3 years, in RWAs. And an investment in our consumer and corporate facing businesses which are predominantly in the UK. That rebalancing of the bank is a very important part towards getting that 12%

return, because what we are looking for is a reinvestment in what are traditionally higher returning parts of the bank, and of course, improving the returns in those parts that have been in the recent past lower returning.

**Alvaro Serrano**

We were just discussing before, the change in sentiment around the UK which continues to be 3 of your 5 core divisions, which overall have high teens RoTE. I want to dig into that, but maybe we can start with BUK, and we were touching in the previous session with Lloyd's around how competition was so fierce during 2023. With the deposit mix stabilising, do you think you have better visibility now on NII? When do you expect NII to trough within the mid-single digit revenue guidance that you've given over the plan?

**C.S. Venkatakrisnan**

I think it's a very important question, and stability in interest rates, stability in economic growth are a key part of what drives all of this and drives NII. Our guidance for '24 has been about £6.1 billion of NII in Barclays UK which is our ringfenced bank. And just to be clear, that does not include the NII impact of the Tesco Bank acquisition, for which we don't know the exact timing, so we can't guide to that.

And then, the corresponding number for the entire group, excluding our head office, is £10.7 billion. Obviously, a few factors drive it. One is a stabilisation in interest rates. We still expect to see some deposit migration from shorter term to longer term, but we expect that to be less than it was in 2023. Even in a declining, flattening rate environment, we expect to see some degree of deposit migration.

And then when we look longer term, one of the key parts of our return is based on increased lending, especially unsecured lending, in 3 areas. In Barclays UK, in credit cards and personal loans. In our corporate bank, where we believe that we and other banks will get the benefit of the roll off of the government lending that happened in the CBILS and BBLs programs during COVID; and we can increase our corporate lending which is also relatively low. And then of course, the investments we are making in wealth, which will have some NII effect. If you add all of that together, we expect that to start increasing over the next 3 years. It would, if I may use a double negative, not be unreasonable to think of 2024 as the trough.

**Alvaro Serrano**

You touched on volumes and part of the plan is to grow £30 billion RWAs across the UK businesses. Even if we take out Tesco, that's on my numbers over 20% growth. It's 3 years, but it's still pretty sizeable. Where do you expect to find all that growth? Will it be consumer, corporate, wealth? Can you give us more colour on those growth expectations?

**C.S. Venkatakrisnan**

It's all of the above. Just to repeat the numbers which you've just said: we've said that we'd like to allocate £30 billion of RWAs in our Barclays UK ringfence bank, the consumer facing business, and in the UK corporate bank and our private banking and wealth divisions. Of course, the last one is not a very big consumer of RWAs by itself.

Tesco accounts for £8 billion as a down payment on it. And the plan is an organic plan. That leaves £22 billion. It's not unreasonable to think about it as roughly in proportion to the current RWA consumption across the business, because that gives you a sense of scale. We all know very well from a credit risk management point of view that you've got to go about this cautiously. I know you spoke to the previous person I guess who was sitting in this chair, Charlie, about the mortgage market. Which is not a heavy RWA consumer and so you have to look more at lending, unsecured lending.

As I've said, we have been, for a variety of reasons, risk management reasons, the behavior of consumers, our unsecured lending deposit assets have shrunk in the last 4 years. At its peak, our card balances in the UK were

something like £18/19 billion and they dropped around £9 billion. Now, Tesco restores about £4 billion of that [in cards]. We feel these are areas in which we have been underweight and under-represented. We believe we can take prudent risk. And by the way, the Tesco portfolio in our judgment has risk characteristics very similar to what we have.

And the same is true in our UK Corporate Bank where our loan to deposit ratio last year was something like 32%. We have room to grow. And there, it's not disrupting or taking share away from any competitor, it might happen, but there is going to be a replenishment of bank lending. Which was basically banks were being substituted for by the government. And once that rolls off, there is an opportunity for banks again. And to remind people, in the UK Corporate Bank, we bank about 25% of all corporates in the country. And we have the transaction banking relationship, we have all the accounts and the payments, and the payroll and so on. In a way, lending is the easier part of that equation. But you'll hear this from me every time, you've got to approach it in a properly risk managed way.

### **Alvaro Serrano**

The UK businesses as we said are high teens RoTE and a little bit is about growth and fine-tuning. The parts that are not doing so well is the US cards and the Investment Bank. Let's touch on those. If we start with the US cards, how do you see the recovery from here? It does look like it's about margins and cyclical recovery provisions that you're looking out for, but can you walk us through that?

### **C.S. Venkatakrisnan**

Yes. When you hold an Investor Day, you ask yourself the question, would I rather do this with all my businesses at a peak, or all my businesses at a trough? And there's no easy answer to it as to what you wish. I think we got half our wishes. Some of our businesses are doing really well, and a couple of them are in short term troughs. The US cards and the Investment Bank are that way.

On the US cards, we printed a RoTE of around 4% last year. This is a business that historically has had double digit ROTEs, 12%, 13%, 14%. What led to a lower number last year? Two things. One is that we have had a travel-heavy business and that travel-heavy business, airlines and hospitality and hotels, had a decline in balances during COVID. Most people didn't travel and people didn't spend on those partnership costs. We've had to rebuild those balances and you pay upfront for them. There's a so-called J-curve where you pay upfront and then over time you build in assets.

And then the second thing is, as delinquency rates have come off lows, and we have a generally higher quality portfolio than most - than I would say half or 2/3 of the major credit card programs - we have a generally higher quality portfolio. As delinquency rates have risen, the actual loss experience has been flat, but we have put on reserves for impairment. That's what drove the lower [return].

Why do we think this will recover? First of all, it's what we do. We are a very specialist card issuer in the US. We operate in partnership cards. We don't do our own branded name. There's a little legacy portfolio of that, but that's not the business. We have 20 corporate customers, blue chip customers, some of the best corporations in America. We have 20 million underlying customers who are their customers. We don't compete for their customers. We don't sell them mortgages. We're not offering them other stuff. What we do is we increase the engagement that those 20 million customers have with the 20 corporations. Spending more, driving loyalty programs and so on. And these are very, very important to these corporates. In the cases of some industries, it represents over 10% of topline revenue, so it's an important thing.

One is, we think we do it very well. The second is, to deal with the structural problems, we are looking at more cost efficiency. We do think we will get the benefits of asset growth because the J-curve will kick in. We also have another issue which is that we have gone ahead and put in what we call our AIRB capital requirements against this book, which is about £16 billion worth [of RWAs]. And this is similar to Basel 3.1. We think it will land somewhere there, but it's not identical to it. It's the UK regulation. We'll have to see where the US Basel 3.1

goes, but we've gone ahead and we do that. We've taken that provision. We've got to work through that. And the first example of that was a credit risk transfer trade which we did in cards selling about £1 billion of RWAs to a large private equity fund. And this is one of the first, in fact I think it is the first, complete vertical transfer of credit risk in cards since the financial crisis. And we expect to do more of that. Optimise, if you like, the link between NII which would go down when you do these credit risk trades, but RoTE which will go up. That's how we expect to recover the business. It's a business we are very good at.

### **Alvero Serrano**

The other division in focus was obviously the IB. You intend, as you've explained again, to keep the RWAs capped at 50% of the group. How are you going to improve profitability with the RWAs capped if the cycle doesn't turn? Because you are being reasonably conservative in terms of the cycle. How are you going to do that?

### **C.S. Venkatakrisnan**

The Investment Bank has been of course a central question for Barclays or about Barclays for many, many years. We I believe have done fairly well at it. We've got 6th strength position. We are the top bank outside of the 5 big US banks. But we have 2 divisions at slightly different stages in their journey. Our Markets business is strong and has had very deep client penetration, especially in fixed income over a number of years, where our ranking is much higher than 6 in some divisions of fixed income.

We've also made investments in Equities, particularly in prime, and in financing broadly, as something we are very good at and we are number one in fixed income financing jointly. In Markets, it's continuing client penetration, and one very simple way we look at it is, back in 2019, we look at our top 100 clients and we say, when we do our counterparty reviews with them, are we in their top 5 counterparties? And there were about 30 of them with whom we were in 2019. And we said by 2023, that number should be 50. We ended at 49, so we dropped by one, or missed by one. Our target is to make it 70 by 2026. We think it's very feasible and it comes by just sort of having more products that continue to do well. And we are picking 3 areas in the Markets business. And then deepening the dialogue with clients. It's executing a playbook which we have done and the focus on prime and financing is a part of that.

Banking is a stage behind and it is a bit harder. One important measure in that is what we call RWA productivity, which is income per unit of RWA. In Markets, as we've increased RWAs over the last 4 or 5 years, we've actually kept that productivity number static. What that shows you, and it's a high number actually, comparatively, was that shows you is that we've kept the investment discipline. In Banking, it's been harder, especially in this slowing environment. And it's affected by the fact that we are also fixed income heavy, but in this case, debt capital markets heavy. We are better known for our debt capital markets capabilities than equity and advisory.

What we are doing is we are going to try to do what we did in Markets which is increase the number of products we have. Do more through our corporate banking efforts, to broaden the suite of products. Invest in high growth areas, technology, healthcare which we've done already, and the energy transition. I think among the top investment banks, partly because of where we are in our journey, we have actually committed more to the energy transition, to being Net Zero, and brought together coverage teams across different segments, including fossil fuels and energy and including the green economy to create one combined banking team.

And the second is, we've been very good at leveraged finance, again, given our fixed income capabilities, and we are strong with the financial sponsors who are also big players in M&A and in equity. And we hope, again, as we did in markets, to broaden that.

This is not going to be easy because our competitors like you are not going to easily cede that ground. But we are making the commitment and we've done it in Markets, we hope to do it in Banking. The combination of those two, that RWA productivity and this, will get us a substantial way there. We have been fairly conservative

on what we expect the market recovery to be and so that combination of things is what will get us there, along with obviously prudent investment and prudent cost management. We've invested a lot.

Another way to think about it at a macro level is we've increased RWAs in our Investment Bank by about £50-odd billion, it's about 25% over the last 3, 4 years. But keeping RWA flat and asking them to absorb the impact, asking our colleagues to absorb the impact of Basel, we are basically asking for a 9% efficiency in RWA usage over 3 years. It is not the strictest of tides.

### **Alvaro Serrano**

If we move onto costs, you took over £900 million restructuring charge in Q4. What efficiency gains are you expecting from this? And which divisions is it focused on? Because it does play sort of a significant role in your targets. Maybe you can speak to that.

### **C.S. Venkatakrisnan**

We took, as you say, about a £900 million structural cost action towards the end of last year. It is approximately 1/3, 1/3, 1/3 across people, certain technology, and premises/location/real estate. Some of them have slightly longer paybacks than others. The people payback we expect to be within a year. Our weighted average payback of all of this is about 2 years, so fairly quick given what we have done.

And you know, I'd rather talk about it not in terms of divisions, but in terms of types of activity. And I think the important thing is, when you look at the efficiencies, we are trying to get them in 2 ways. One is by continued digitisation of processes, especially customer facing processes, but not just customer facing processes. And with that, you find efficiency.

The second thing is where there was already digitisation but it was done in a way with multiple systems, multiple approaches, trying to harmonise it. Create efficiency by moving applications to the cloud, by having a single approach, buying versus building, and that's the second form of efficiency. Taking that together is where the people efficiency comes from, and we expect to continue to do more of the same. I'm not going to say of the same amount, but more of the same over the coming years.

### **Alvaro Serrano**

One thing I wanted to touch on as well, that we'll come back to, is the loan growth. Because a common denominator of what you're doing in the UK and the US is loan growth and in particular consumer. It does feel to me, and I've asked you in other forums as well, that it feels like Barclays is risk-on at the moment. First of all, do you agree with this? Is this correct? And with your old risk hat on, how would you characterise where we are in the credit cycle and why do you think this is now time to put on risk?

### **C.S. Venkatakrisnan**

Yes. Look, it's a very good question. It's a question we ask ourselves a lot. And you can imagine I get asked the question too given my background. The important thing in my mind when you think about taking credit risk, and credit risk is predominantly what banks do, is you've got to ask, what are the events out there that can cause weaknesses in credit conditions? One is obviously levels of interest rates and levels of unemployment or employment. And it's not just levels, but how rapidly they change. The change is sometimes more important than the level. Certainly, models which people do of impairment show you that.

What we are coming to right now, post-COVID, post-Brexit in the UK, is a level of harmonisation and economic growth. We've seen some resiliency. We've seen even greater resilience in the US. And what you are seeing is economies, both in the UK and the US, for different reasons, operating at near full employment. Second is, we do have what appears to be a soft landing. We've had interest rate rises, which may now be

shifting, who knows. But with fairly high employment and fairly strong credit conditions and with continued investment in the economy.

Third, in the UK, political risk in terms of economic terms is as low as I've seen it in the 35, 40 years that I've been following the UK. The difference between Labour and Conservative on economic politics is not that great. There are obviously differences and they'll go to the voters and so on. But as far as we see it in terms of support for business, support for the economy, the role of London as a financial centre, we think we see a fair amount of harmonisation. All of that in our opinion bodes well.

Turn it the other way, what was it that led us to be a little risk-off? Brexit was a huge economic shock. We are 8 years away from Brexit. Second was COVID. It was also an economic shock. And the governments have responded with a huge amount of stimulus. Now there still remain risks on the horizon. Countries have to borrow a lot. They don't have the fiscal wherewithal to spend. How is all of this going to happen? It's not that we are risk free, but we are in a better risk environment here than we have been in the last number of years. I think all the economic arguments bode the same in the US as well. There, potentially political risk is greater between the two parties. But the economic institutions are strong and the underlying growth factors are strong.

### **Alvaro Serrano**

Maybe a last one for me and then I'll open up to the audience. It's more about capital allocation and distribution. You are obviously committing to distribute over £10 billion capital shareholders. How much room does this leave to invest? Because obviously you've done the Tesco acquisition. On one side, you've earmarked Italian mortgages, German cards and potentially a payments JV on the other side that could free up capital. Should we think there's upside to the £10 billion? Or should we think about these disposals as more a reallocation of capital? How should we think about that?

### **C.S. Venkatakrisnan**

The disposals are certainly a reallocation of capital. I think the way to think about capital, as we laid out in our presentation, is 3 things. The most important is that we remain a well-capitalised institution. We are a bank. First thing in the morning and the last thing at night is to remain well capitalised, have excellent liquidity, and run the bank well. That's the first thing in the morning and the last thing at night, and frankly, every minute during the day. That's CET1 and we put out capitalisation target ratios of between 13% and 14% CET1. That's the first thing.

The second thing on that waterfall is our commitment to greater than £10 billion [capital distribution] over the next 3 years.

The third thing is investments. Now, we have created what we believe is an organic plan. We aim it to be an organic plan. If there is an investment, it would have to meet fairly high hurdles. First, it would have to be in the areas of our strategic growth, which are these 3 consumer facing businesses where we have been historically returning in the very high teens. and in the case of our wealth management business, much higher than that, 31% last year. It would have to be there. And those returns are higher than what you might think our cost of capital is, which could be anywhere from 15% to 20%, so they are at or above those levels.

Second is that they have got to give us either producing assets quickly, or a capability that fits with the business strategy. When we bought Kensington Mortgages a year ago, almost 2 years ago, it gave us an ability to do mortgages which were sort of non-vanilla. Tesco helps us accelerate our unsecured loan growth and it's an important thing in partnerships in the UK with their large customer base which is transporting the synergies which we have because of our partnership experience in the US.

Anything else would have to be tractable, would have to help, can't distract from management focus, because we are focused on executing our plan. Tractable meaning both small in size and capital requirements. I can't



predict what those might be, but we would consider only things that meet that. It's a fairly high hurdle. But the important thing for you to remember, for me to communicate is, morning, noon, and night, we are [well] capitalised, highly liquid. After that, the £10 billion return. And then after that, investments. And then to answer your question specifically, we've said greater than £10 billion over 3 years. If everything goes well, focus on the greater than sign.

**Alvaro Serrano**

Thank you. With that, I'll open it up to questions from the floor.

**C.S. Venkatakrisnan**

Alvaro, you're so good, nobody has any questions. There's one here in the front. Not good enough.

**Audience participant**

I have 2 questions. First, why your payment strategy? Because before your Investor Day, there was a lot of speculation about potential for partnerships that apparently didn't succeed. The second question is about consolidation. We have had obviously Nationwide [Virgin] commentary. What is your view on perhaps the impact also on the competition?

**C.S. Venkatakrisnan**

On the first question, what we have said is that we are looking at ways to partner in payments. The question is not closed by any means. What we do in payments is very important in the UK. We have about 1/3 of our payments coming through our pipes, so we are part of the national infrastructure. We do 3 kinds of payments if you want to think about it. First of all, what customers do in their bank accounts in and out. But when you look at the corporate side, we help SMEs make payments to each other, so call that B2B. Then there's a little B2C where again we help corporations issue synthetic or virtual cards and have their customers pay them and they pay their suppliers.

And then there's the sort of very large thing which is called acquiring, merchant acquiring, where we work with a large company, supermarket or whatever, supplying the machines where you go tap your card and online collection. That's a technology heavy business and that technology heavy business is not really something that we should be part of. There are many very good companies in the world that produce that technology and can operate and invest at a scale far bigger than even our large scale in the [UK].

What we are doing right now is we are in the process of working to find a partner. I can't tell you exactly how a transaction would look, but the elements would be that you'll find somebody who is durable, good at that technology, and who would serve as that front end if you like. We would maintain the client relationship from the front end to the backend. We would pay them a flow and they would sort of have to pay us for the huge installed base of customers that we would be supplying them. That is the trade. And how exactly that is and what the money amount is and the structure, I can't say now. It will depend on the partner. But that's what we are looking to do.

On your second question on consolidation in the industry. I think as the interest rate cycle has settled, as the economy itself has become more stable, companies, especially banks, are looking at their business models. If you like, there are 2 things that are going on. In the new level of rates, in the new level of the economy, what is the financial durability of my business model? Anybody's business model. And the second is, and this is true more outside of finance, but true in parts of finance, what have been the sins of investment which was done on the basis of cheap funding, and so zero interest rates? And which of those sins need to be corrected? They invest a lot of that in the technology industry.

In addition, in the financial industry, 2 things are happening. You're seeing on the capital side the final set of rules in Basel. Now, they may happen next year or 2 years from now, but we are closer to the end than we were in 2008, and so people get sight of that. And people get sight of the scope of it. And smaller firms will struggle to pay the fixed cost of being compliant. You see it. We spend a billion pounds a year give or take, more give than take, on regulatory compliance. It is hard. It is hard. It favours the larger institutions.

You're seeing it also in 2 ways. In the US, the Capital One/Discover deal is about that, because Discover ultimately had to sell itself to get compliant. You're seeing it with regional banks who might be at the threshold of crossing \$100 billion in assets, in which case there are a whole new set of stress testing and capital regulations.

In the UK, in addition to these things, what you are seeing is the effect of the consumer regulations becoming clearer. I know you have Mike from the FCA coming in a couple of days. You are seeing the effect of the consumer regulations come into effect. Now, these consumer regulations are extremely sensible, they are right for the consumer, and they are what you should do.

However, it's one thing to say that they are good and right and do it. The other thing is, when you start doing it, you realise that it is difficult, it requires changes in practices, it requires sometimes restructuring in business processes, and it requires spending. And that, like capital change, is a cause for consolidation.

I would say both things. We all want a well-capitalised system. I'm a big supporter of these capital rules. We may argue with individual rules and how they come in and so on, but as a general matter, we all want a well-capitalised banking system. Equally, we all want a regulatory system that puts the consumer at the heart and make sure that the consumer gets the right products for them, that they are sold in a good way, that they are transparently constructed and they are fairly priced. All of these things are good.

Then when you start to implement it, it becomes harder for some than others. And the larger bank institutions like us have greater experience of doing this. You will see consolidation for those reasons. Does it increase competition for us? Over the long term, maybe. Over the short term, no.

### **Alvaro Serrano**

I've got a question on your US businesses which you've touched on indirectly. How does the consolidation affect you? Because this is the kind of business that - referring obviously to the cards business - that is lumpy. You've got lumpy deals on one side, so how does the consolidation help you in sourcing those deals? And also, a few days ago, I think last week or the week before, American Airlines was talking about renegotiating their deal. How do you see, when you look out, the perspectives between organic, the opportunity of your backbook performing, your ability to renew, versus the opportunities that this consolidation may open up?

### **C.S. Venkatakrishnan**

I think the first thing about Capital One/Discover is, what is that deal about? It is obviously about Capital One acquiring the credit card business. It is also Capital One acquiring set of payment rails which Discover has. As we've discussed prior, what this does is it puts a premium on credit card businesses and a premium on payments businesses. We've got both. We've got credit card businesses in the UK and the US, and obviously this payments business in the UK. Number one, these are assets which people find valuable. For us, that's a good thing.

Number two, on Capital One/Discover, it has 2 impacts. One is the degree for Capital One that they can, by using this new payment trade they have acquired, deliver things to their own customers cheaply on their own brand. That's for them. The second one is they are a player in the partnership market, and we'll have to see how they emphasise their time and their investment between partnership and this integration and this merger. That I can't predict, but that we have to see.



Obviously, I'm not going to comment on particular individual clients. What I would say about our partnership business is that we look to add value to our partners. We've been very successful at doing it. Our renewal rate has been close to 90% over time. We work with them and we work with partners to, as I said, maximize benefit for them. And we will do that with each one of our partners. We have 20 and we value them all for what they bring.

**Alvaro Serrano**

Great. Questions from the audience?

Obviously the outlook in particularly Markets, Investment Bank is more difficult, as if the UK was ever easy. But traditionally, it's more cyclical is what I'm trying to say. If the recovery doesn't turn out to be as what it's looking like, what other levers do you have or what confidence can you give us that the 12% is still a good target? Maybe it's a cost theory you might have. How should we think about sort of Plan B if I can call it that?

**C.S. Venkatakrisnan**

The first thing, especially in our Markets business, is to understand the structural way in which we have revenues and where we have diversification. If you look at our topline revenues in the Investment Bank over the last number of years, it's actually been fairly stable at an £11-ish billion number annually. And there is a part of that which we call ballast which is relatively constant. And there's a part of that which we call diversification which is offsetting parts of the cycle that we talk about.

What we call ballast comprises 2 things. One is our corporate banking business which is managed as a part of investment banking. And that is transaction banking and so on. Recurring revenues are like 80% there and we've been growing that business. The second part of our ballast is financing, which is what people call prime, which is lending on stocks. And then fixed income financing which is lending on bonds. Both of which have been increasing, and fixed income has been increasing at a higher level as interest rates have risen. Interest rates have been choppy and spreads have been choppier than they were 3 years ago. And those 2 form the ballast and the core. There is a part of this revenue which we believe is much more predictable and recurring.

Then you look at the thing which is more volatile, which is investment banking fees. DCM, ECM, Advisory, and markets trading or what we call intermediation. Those 2 have tended to offset each other. If the markets are volatile, we make more money in trading. But banks aren't doing as many deals. And then if the markets are stable, we make less money in trading but we make more money in fees. They don't perfectly offset each other, but they help.

The last thing -- so one is, we have protection in the structure of our income. And the second is, more to your question, if the revenues don't materialise, well we have also got cost projections which are based on that revenue. And there's a £1.7 billion cost impact, some of which is related to performance fees. If you don't get the revenues, those performance fees will reduce. There is a bit of a hedge in there.

**Audience participant**

I'll ask a couple of questions. One is, across investment banking and the prime markets group, when you look at those and the offset factor, do they produce the RoEs that you desire, which are reducing RWAs, etc.? And then a follow-up.

**C.S. Venkatakrisnan**

Without going through numbers, both prime and financing and of course traditional corporate banking are relatively high RoTE because they are not as consuming of capital. The parts where we need greater RoTE efficiency is investment banking fees. And there, we are much more debt capital markets heavy than the US banks are. And that's where we've got to be more efficient.

And then Markets, that is the place where you can be very efficient because the traders are very good at looking at the Basel rules, changing pricing accordingly, or changing terms accordingly. And making it a less sticky book if you like.

**Audience participant**

I'll ask maybe a more provocative question then. You've raised the Discover or potential Discover acquisition by Capital One, has come up 2 or 3 times. And you raised the issue of hitting the 100 billion barrier for US retail. One, why did you look and why did you pass on Discover? Because you're in the cards business and some of your co-brand partners are, let's be honest, a little stale in terms of their business growth and trajectory on like the retail consumer side. And could you buy a bank in the US at the right price?

**C.S. Venkatakrisnan**

Everything has to be at the right price. I'm a very –

**Audience participant**

There are no bad bonds, just bad prices.

**C.S. Venkatakrisnan**

I'm a very strong believer in management discipline and management focus. I think either of those 2, even if financially attractive, would have been spreading our wings a little too much and too far and too wide. And open a front on regulatory and other issues which would have been frankly hard for us to navigate. If you look at why we are investing in the UK, it's not only that it's a great economic opportunity. It's not only that they are businesses which we do well. But actually, that it is right here, it's at home, and so it's local. There are parts of this business where we act globally, but they are limited and we've got the management depth and scale. I wouldn't challenge myself that much there.

**Alvaro Serrano**

We can squeeze in a last one if there is any, or we're just approaching the end, I think we can probably leave it here then. Thanks very much, Venkat, for a very exciting session. Thank you very much.

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