Barclays PLC FY 2023 Results

6th March 2024

Analyst meeting transcript (amended in places to improve accuracy and readability)

Anna Cross, Group Finance Director

Thank you for joining us. I'm going to start by covering off a few themes that we've been discussing with investors since the investor update. And I hope what that will do is provide some clarification on topics for you but hopefully spark some extra questions that I'm sure we can dive into. So there have been five key themes:

The first is the drivers of the £30 billion group income target for 2026 and what are the levers at our disposal if we don't hit that target.

The second is income growth in the Investment Bank and how we will achieve that, whilst maintaining the RWA and cost position.

Third is the £30 billion of RWA deployment into high-returning UK businesses; why we think now is the right time to grow the UK [businesses]; and what gives us the confidence that we can do that successfully.

Number four is in the US Consumer Bank, so there's understanding of the building blocks for improving RoTE and indeed whether or not we're the best owners of that business.

And then finally, last but not least, our capital flight path in 2024 and the capacity for distributions, given the IRB model migration and the Tesco bank completion, probably in the second half.

I want to take each one of those in turn. So, starting with the first point, the ambition for £30 billion of group income. As we spent a bit of time on the day, first, we have a predictable income uplift from the structural hedge. We're at a point in the cycle where rates are stabilising, have likely peaked, and therefore that structural hedge forms an important stabiliser to income from here on. With the assumptions that we outlined on the 20th, we would expect a compounding effect to generate an additional £2 billion of gross income by 2026.

The remaining growth comes from reasonable assumptions in the Investment Bank and the deployment of RWAs into our home market, into consumer and corporate banking areas where we believe we've got a credible opportunity to grow. And then finally, if we do not achieve that £30 billion, we do have some flexibility to adjust cost accordingly. For example, we showed £1.7 billion of business growth costs between now and 2026, which has a large amount related to performance costs which will move up and down with income. So secondly, in the Investment Bank, we are targeting a high single-digit income CAGR through to 2026. And it's important to emphasise that over half of that growth in the IB is associated with our own initiatives and not with more market wallet, assumptions which we believe are conservative. So, our plan assumes that the global market wallet is broadly flat and that we see an increase in the investment banking wallet back towards the 10-year average by 2026 from last year's decade low. In Global Markets, we showed how many of our top one hundred clients we ranked top five with: in 2021 that number was 30, by 2023 it was 49 and we're looking to grow that to 70 by 2026; and we will continue to scale our financing business over the next three years. We aim to grow that by a further 5% CAGR versus the 13% CAGR that we've achieved since 2019. And we also talked about three further focus businesses: European rates, equity derivatives, and securitised products. And in European rates and equity derivatives, we believe that we've lost share due to idiosyncratic reasons. But these are traditionally large businesses for us. In rates we're a primary dealer across 17 countries, and in equity derivatives, we are one of the largest issuers of structured notes. So we've already allocated the capital we need to grow those businesses, as we showed you on the day. And in securitised products we do originate and what we're talking about here is doing better in trading.

So, in investment banking, we are rebalancing our footprint towards ECM and M&A, and we recognise we need to do more than just DCM. Looking to improve the fact that 60% of our clients only have one to two products with us. As proof of progress, so far this year in US M&A, we are the exclusive financial advisor to NuStar Energy and are joint advisor on KKR's acquisition of a 50% stake in Cotiviti. In US ECM, we are left lead for Pinnacle West's Public Offering, and that's the first company raise since 2010, which we also led. In EMEA ECM, we are leading Apollo's first sell down post IPO in Lotomatica, having been joint global coordinator on the global IPO last year.

So some of our investors, and I know you guys as well, have questioned how we can continue to do this whilst starving the IB of capital and costs. I think that the way we see it is that it's more of a maintenance regime. And if you observe over the last couple of years, the RWAs of the IB have been broadly flat. So firstly, we are focused on improving RWA productivity of the Investment Bank. And we talked about the two businesses being at different stages:

So, taking Global Markets first, we showed that whilst we've increased the average level of RWAs between 2019 and 2023, the revenue over RWAs has been relatively constant, and that reflects the discipline that we have already in recycling RWAs across the complex and into higher returning opportunities such as financing. And we'll continue to build on this. We showed that the RWAs are already deployed against the next three opportunities that we're going to go after, and specifically on the day we talked about where we don't have top five share, that consumes 38% of our RWAs, but delivers 28% of the revenue.

In Investment Banking, the income to RWAs has declined and that reflects our reliance on DCM and the income mix. I mentioned our desire to rebalance towards ECM and M&A. We're not blind to the fact that that will take persistence, and indeed a cultural shift for the organisation, but we think we've got the right people in the right places to achieve that.

Secondly, we expect more modest cost growth versus the prior few years simply because we've already made the investments into technology and talent. For example, over the last two years, we've invested £3 billion additional into the Investment Bank. Roughly two thirds of that, was in Global Markets tech, and on the Investment Banking side it was largely in talent.

Moving on to the £30 billion of RWAs into our highest returning UK business. We're confident that we can deliver that because of where we start from. So, we made deliberate choices to de-risk our businesses post Brexit in the UK. We had a large proportion of our card balances coming through balance transfers and a combination of that and the actions that we've taken around persistent unsecured debt meant that we had a focus on reducing the scale of the portfolio. And on the corporate side, there was some specific name exposures and also some specific sectors that we'd stated we wanted to exit. With retrospect, we likely have de-risked this too much, so we've lost £5 billion of UK card balances, and our market share has reduced from 22% to 15%. So why now? We see the UK economy as very resilient. The government [backed] Covid loans are maturing, and as such, we do expect there to be an increase in the demand for lending. And this, combined with lower rates, stability in the deposit base and the tailwind from the structural hedge, gives us confidence to re-establish our position in UK lending.

So, through regaining share in unsecured lending, we talked about the Tesco acquisition on the day and that accelerates our plans, growing our share in high-LTV mortgages where we'll leverage the Kensington acquisition that we made last year, and growing our lending share in business banking and corporate banking where we have very low loan to deposit ratios versus our peers. We haven't disclosed the RWA split by businesses, but if you imagine that would be broadly in alignment with our existing RWAs, that would tell you that we have plans to grow BUK beyond the Tesco acquisition. And very importantly, if we are unable to deploy that £30 billion into the high returning UK businesses, we would look to return that [capital] to shareholders. Now, we don't believe that's the optimum longer term outcome. Even if the RoTE is lower than 12% in 2026, as a result, that would free capital for shareholder distribution. So we'd' generate that free capital in a different way. So that return of capital would follow the clear hierarchy that we set out for you on the day.

So finally, on the US Consumer Bank and the building blocks for RoTE, we spoke about client synergies, partnership opportunities, and the diversification that this business offers to the group, that makes it attractive for us to own, but our focus is on improving its RoTE as a standalone business, and we've got a clear plan to do that. So, starting with 2024, we said that the actual loss experience, as you can see in the write-offs, is low and stable, but we would expect that to increase through 2024, which is why we're building reserves and we expect the impairment charge to remain elevated through the first half of 2024 and then somewhat dissipate. And over 2024, we would expect it to be lower than 2023. We also said that we plan to recalibrate our pricing in response to industry-wide [late] fee legislation that was confirmed yesterday. While the impact of those rules will impact fee income at a total income level, we would expect to offset that over time. That will be achieved through mitigating actions in NIM, which we told you about, including adapting our pricing and the greater amount of retail deposit funding. In the short term, we would expect that to be a headwind, but you'll see the mitigation coming through over time. The mitigation will lag the impact of the legislation coming into place. And separately, in response to the change in capital requirements under IRB, we said that we would leverage strategic partnerships in order to do significant risk transfers.

Last Monday you would have seen us announce the first one of those: so a transaction with Blackstone, taking about a billion pounds of RWAs off the balance sheet, which is a good example of what we think we can achieve here. It's innovative, it's the first of its kind post GFC, and we would hope that it's the first of a series of activities that we will undertake in order to create RWA capacity within this business. We're going to continue to automate and digitise, and that will improve the cost income ratio. So, all that together, I would expect the RoTE to be a bit lumpy this year, but over time, you're going to see it trend upwards as we make progress towards 2026.

And then lastly, on our capital flight path into 2024, and the distributions capacity given both the Tesco acquisition and the IRB model migration: to be clear, our 13 to 14% CET1 ratio [target] is unchanged. We said that that gives us sufficient capital to absorb headwinds and also distribute. Given the amount of capital that we are generating, we expect the total distributions amount and the broad cadence to be in alignment with 2023, subject to board and reg approval, obviously. And then the final thing I would say is, as with usual seasonality, expect us to deploy more RWAs in the first quarter, just given increased typical client activity that you see in Global Markets, but that's compensated by higher earnings. And then what happens is we release RWAs as we go through the year. We're also increasing capital, and that's what facilitates the capacity to absorb the headwinds in the second half, but also distribute, obviously. So, I'm happy to take your questions there and have an open discussion. '

Perlie Mong, KBW

Thank you for all of this. I'm sure it's a lot of work for everyone. Can I just go a little bit more into the Investment Bank and market strategy piece. Looks like one of the big buckets is more products with existing clients, and presumably this is not the first time you would've tried to do that. So, what's new, and why is it that existing clients want more products now? And then, next the focus business areas that you gave some examples of, presumably you've already started looking at this, before you've given us this information. So, any early signs of progress and just how much market share have you taken, who you've taken it from etc, that would be helpful.

And a little bit more broadly, on the day when we put the numbers together, I think, if you put income guidance and cost guidance and everything together, the PBT is about 30% or so above where consensus previously was, which is really quite a lot. So, the question is, do you think the market was wrongly underestimating the potential, or is there a level of aspiration in your target? And is there an area that you feel was especially out of line?

Anna Cross

Okay, thank you. So, I'll try and remember all of that. It's probably worth starting on page 80 if you have it. So, the answer to your question is what are we doing differently? The answer is not very much actually: we believe that we've got an approach here which has been highly successful to date, Perile, and specifically it's not rocket science, it's not anything but very, very good client focus. So, if you look on the top left hand corner of page 80, imagine that you are a client of ours; we would come to you and say, okay, Perlie, you are number eight in G10 credit with us, globally we're number two, why? And we work through it, product by product, client by client. And it's just a relentless focus. And I think perhaps one of the things that we've been successful at is really working effectively across desks in Global Markets and specifically, for example, if you come back and say, okay, well the sales coverage isn't very good, or alternatively, from our side we might say we think the pricing's a bit more difficult, then we think about that client as a totality rather than each desk individually. So it's more of the same in that, which just is a relentless client focus. And you can see as a result of that, across the way we stratify our clients, the top 100, top 150, and then the rest, we've made meaningful market share progress across all of those.

I think in terms of the specific products, if you look at page 82 and 83, that's really what's allowed us to grow those top five businesses where we've got a pretty good market share at 11%. So it's exactly that process. Also on that page, that's the 28% and the 38% that I called out before. So we've already allocated that 38% of capital to those next focus areas.

I'm not going to call out progress intra quarter or over such a short period of time. All I would say is, the reason that we picked these is because either they have an adjacency to something that we do well already, or alternatively, we have a history that we think we can recover. So, for example, in European rates, it's largely because of our historic position.

We know that we can run this business successfully, [but] we've lost ground, we need to get that back. On something like equity derivatives, actually, it's this juxtaposition to prime that gives us more confidence there. And then finally, in securitised products, I said before, very good at originating, [but] the trading has been less focused. So we are trying to be very specific about the ones that we've chosen.

The other question: so typically, at its simplest level, we've been guiding to a RoTE of greater than 10% for some time. And consensus has been consistently below that. So that's the simplest answer. We obviously have plans to grow areas of our business that are inherently more stable, and we clearly have a bit more confidence in the top line than the market has had. So I think they're probably the biggest reasons. Costs looked about okay. Sometimes impairments are a little bit high in consensus, but I think it's mainly confidence around the top line. But actually consensus hadn't caught up with the previous guidance we'd given anyway. Should we go next?

Sheel Shah, JP Morgan

Hi, Sheel Shah from JP Morgan. Two questions please. Firstly, on the US Consumer business, you're looking to grow from $32 billion card receivables to $40 billion. Can I get a sense of what the underlying growth is versus the growth that you would expect from acquiring new partnerships? And then secondly, just any sort of insight on the trading market, year to date. We've had some positive commentary come out from peers, so just to get a sense of that please.

Anna Cross

Okay. So with the US Cards book, we'd typically assume an acquisition every two to three years, but we're not assuming anything of huge scale in that. So if you thought between, I don't know, around 2 to 3 billion inorganically and the rest organically, you'd be in the right ballpark. As we plan, we typically assume something of that scale every two to three years. Given the nature and scale of our business, we are going to be less inclined to do the really huge transactions, and more inclined to gradually increase through a number of partners. Now, some of those partners actually start from zero. So if you look at Xbox, if you look at Breeze Airlines, then they are ones that we've started from zero, whereas other ones we acquire a back book, so expect it to be a blend on the second point.

I wouldn't make an intra quarter trading update. Okay, thank you.

Robert Sage, Peel Hunt

It's Robert Sage from Peel Hunt. I have a question on the PBWM business, because I'm just looking at the statistics and you are making a 31% RoTE, you've got a 2026 target of 25%, and at the same time you've got a 69% cost income ratio, which I'm guessing could be improved over a period of time. So, I was just wondering how you manage to square those two parameters. Why your RoTE is intended to fall while at the same time your cost income ratio is going to be falling. And just in terms of the growth path here, a lot of your peers are talking more significantly in terms relative to their own businesses by growth in this area. And I was just wondering in terms of scale, how we should be thinking about this on a say three to five year view.

Anna Cross

Okay, thank you. So, one of the really attractive parts of this business is it's clearly capital light which is why you get this sort of high cost income ratio, high RoTE signature to it over time. What we are expecting is to deploy more RWAs into this business. If you think about where it is in its cycle, it's going to be pretty liability heavy. We've seen a lot of de-leveraging within this business. So even though the credit side is relatively small you are still going to see some credit growth I would expect in the private bank side.

Our views on growth: I mean, clearly our plan is an organic plan. We are very focused on continuing to build out the strengths that we have both in the [UK] private bank and the international private bank. But most of the change in activity here is really going to be around wealth and digital investing. So we said that there were four parts to this business. Two are more mature, two less mature. So digital investing and wealth are the businesses that we transferred from Barclays UK in the middle of last year. And the way I think about it is [that] digital investing is for everybody; and our wealth business is for the sort of mass affluent or slightly above mass affluent population. And we think there's about 3 million of our retail customers who are addressable within that latter market. So we already have these folks within the platform, we're able to leverage the scale that we have around providing investments from the private bank, in order to bring that to them in a very clear, simple, fairly priced structure.

So that's our objective, to do this in a clear self-directed way. On the digital side, I think it's fair to say that we have a lot more work to do there. You'll have seen that we just repriced that business. We repriced it earlier in the quarter, and we'll have to see the impact that that has on its progress. But there's further work that needs to be done, both in terms of the capabilities of the platform itself, but also in the way that it's integrated into our retail banking application. And we think really our opportunity here is because we've got a very good private bank and because we've got a very good retail app, it’s bringing those together really in a very, very integrated way that would stand us out from our competitors who provide the wealth and investing part of it, but clearly are unable to do the banking. So that's the objective. So it's more of a tech [list] on that digital side.

James Invine, Société Générale

Good morning, it's James Invine here from Soc Gen. I've got two please. The first is just thinking again about the revenue target and particularly within CIB. I was just wondering how much benefit you had over the past few years from smaller growth companies starting to become customers of the investment bank. And now with the change in divisions kind of carving out UK corporate banks separately, does that add friction to that relationship? Do they have to get a new relationship manager to get those products? And then the second one is, you've already said that you are selling the German consumer business, where does that leave Entercard? Are you happy continuing with that or are you also looking to sell it?

Anna Cross

Okay, thank you. So I don't have the stats at my fingertips. However, what I would say is, one of the things that we would see as our standout characteristics versus some of our peers is that we are able to take companies from their very, very early stages through the corporate transitions all the way up to IPO and beyond, if that's what is in their capability and ambition. So, we think that's quite unique. We wouldn't see the re-segmentation of the firm as being a barrier to that. And the reason I say that is, within the CIB we've been running the corporate and international corporate bank like that for some time actually. This is a formalisation of the structure and they are quite different clients. And the way I think about it is the corporate bank is what some call commercial banking. It's the 50 regional offices in the UK, a real regional focus, very much relationship manager driven. In the international corporate bank it's FTSE350 and above, and clients for whom the nexus to investment banking products, whether they be debt or equity, is really helpful. So that's how we think about it, always have done. That doesn't stop us from managing those clients across the transition. And equally they share an infrastructure because the infrastructure sits actually somewhere else, Barclays Execution Services or BX as we call it. So, they share technology and they'll share some product set as well, particularly around things like Transaction Banking, where actually there's probably less differential.

Second question, on the German consumer business, we haven't made any decisions on Entercard. Obviously we'll update the market if we do, but at this point in time we haven't considered it. Thank you.

Sharada Patel, Citi

Hi, it's Sharada Patel from Citi. I'm a fixed income analyst. So it's always useful to get some colour on how you think about your CET1 management buffer. And again, likewise on asset quality and specifically your outlook for stage three loans.

Anna Cross

Yeah, so taking the second one first and then I'll come back to the first one. I might invite Dan to comment as well. So asset quality in the UK remains very robust actually, and we see no material signs of deterioration, either in the retail or in the corporate books. Now on the retail side it's not hugely surprising because, despite the amount of affordability pressure out there, I think the way the products are set up, both in terms of the requirements to stress test customer affordability before your lend, that's been in place for a long time in the UK, so it means that on the mortgage side, customers haven't actually faced rates that they haven't been stress tested against - not even at their peak of mortgage pricing last year – and as I said before, there’s been a reduction in persistent debt across the UK, across unsecured more generally.

So, customers are in a better place in terms of the setup of their borrowings. And I think also they've managed it extremely well. So, we see changes in spending patterns. If you look at the spending that we announced the other day, I can't remember, was it yesterday or the day before, our Barclaycard stats, the increase in spending remains well below the increase in the inflationary level, which tells you that they're managing their spending. The other thing that I find fascinating is the number of hits on the app are much, much higher than they were. So that tells you that customers are looking, they're actively managing their finances. So, all of that I think has helped.

Same on the corporate side, corporates are very robust. Where we have seen single name issues, we've had really good protection from our significant risk transfer programs. So, we've had considerable credit protection.

And in the US, as we've said, we've seen very stable write offs. We are reserving more at the moment because of the trends that we see in delinquencies, but again, those trends are not alarming. There are levels that are broadly consistent with pre pandemic and they're in line with the industry. So, I don't think we have elevated concerns. And of course we are not really exposed to CRE in the way that many others are. It's less than 5% of our book. So, some of those more macro US trends are probably less impacting on us. Just in terms of the buffer we remain comfortable with it; it's one of the reasons that we've said that we'll operate across our 13 to 14% range. We obviously had it in our mind that the MDA was going to rise over time when we set that range out. And the most important thing in that is obviously our ability to generate capital. So, to the extent that we're generating strong and robust returns, we expect to be capital generative and that's the most important part. But I just take you back to that hierarchy of capital that we set out, which is the 1, 2, 3. So number one for us is maintaining regulatory capital.

Dan Fairclough, Group Treasurer

Not too much to add to that. Maybe just that we've got quite a lot of flexibility in the way that we manage our RWAs. Ability to actually manage that quarter to quarter, if needed to, is the key.

Alvaro Serrano, Morgan Stanley

Alvaro Serrano from Morgan Stanley. I've got one follow up from your opening comments on the £30 billion RWAs. Is there anything we're missing on maybe CRD4 impact, or you mentioned the recycling from government guaranteed loans into presumably normal loans, that create some other [RWA] inflation, because even taking out Tesco it's about 20% growth, which would seem, if that's real loan growth, then the mid-single digit [net interest income growth] feels very conservative. So maybe a comment on that.

And then the second question, on US cards. You might have seen a couple of days ago, I think, American Airlines was talking about renegotiating their branded cards. You're there with Citi, I mean, a massive contract, presumably you baked in some renegotiations, but can you help us through how you baked those renegotiations and how can we think about the change in economics there going forward? It basically helps us understand how you bake it into your life. Thank you.

Anna Cross

Yeah, sure. So just on the first one, in terms of the £30 billion of RWAs. So what you've called out in terms of the government guarantee is definitely a factor in there, because obviously what you've got is both SME and corporate loans rolling off, against which we hold very minimal capital. And to a large extent UK banks have been somewhat crowded out of that market, so you've got a re-entry into there. And we would say certainly in a falling rate environment, a degree of pent up demand within that community that we would want to unlock. And we've done the hard yards, particularly there, because it's almost the opposite of where we are in banking. We've got a very, very strong relationship based on cash, based on merchant acquiring. So where we're coming from, we've almost done the hard piece. And now it's leaning into lending.

In terms of CRD4, I wouldn't call out anything specific or anything of material size. And we are basically saying that we want to grow organically in the UK. So, if you take that sort of SME and corporate unwind and, Tesco apart, this is an organic plan. The only thing I would add is that clearly we've been growing cards already. It just isn't really translating through into interest earning lending yet because they're going through the maturation from being 0% balance transfers. So, we're going to see hopefully a bit of growth organically in cards. And equally when we get Tesco, we wouldn't expect that book to be static. We would expect to acquire it and grow it. So, it's probably worth modelling that as well. And then in terms of higher loan to value mortgages, that's an area where we don't have much presence at the moment. It's highly fragmented in the UK and therefore we're confident, with the capability that we have from Kensington, that we can grow that business.

On the American Airline side. Yes we read that with interest. From our perspective, we have a staggered origination program and that means that when it comes to the renewal of contracts, they are also staggered and that de-risks and stabilises the book. That said, we have about a 90% renewal rate on our portfolio. If we feel that the economics go beyond where we would be comfortable as a returns matter, then we have not been frightened to let contracts go.

The American Airlines transaction is shared between us and Citi; we operate in different parts of the distribution network, if that makes sense. So we are on the plane and they're not and that's what suits us. So, as we enter into those negotiations with American Airlines, we'll have to understand what their objectives are and react to it at the time. But typically we assume some turnover or renegotiation with our partners as we go through our planning process.

Joseph Dickerson, Jefferies

Hi, Joe Dickerson from Jefferies. Just staying on the US cards, do you have a pipeline or visibility on future risk transfer transactions like you announced last Monday with Blackstone? I mean, could these be quite material and mitigate a lot of the £16 billion of the IRB inflation? I don't know, a third of it, whatever the number is. I mean, is there visibility there, or is that just more of a one-off for now that you then would hope to grow?

Anna Cross

So, it's the first, I wouldn't describe it as a one-off. We would intend to grow that program ongoing from here. And it's a little bit like what we did with [our Significant Risk Transfer programme]. We did the first transaction, we learned from that, and then we've established more of a regular flow. So, I think Joe, we see this as a bit more of a forward flow type arrangement and it might be with a number of parties. So, we're already quite well progressed in thinking about how we would structure that. As I said, this first one was quite innovative but as you can imagine, it's attracted quite a bit of interest more broadly in the market. So, we're confident in our ability to do that. And really what it allows us to do, just as you think about the economics, is we're going to essentially de-recognise the asset and the RWA, you're left with servicing income, so it allows you to grow very effectively with the partners that you have, without quite as much of an RWA burden. So that's our objective. We showed you in the RoTE flight path broadly what the scale would be. I think it's page 95, so you can see that we're showing, it's relatively modest on that chart. I think that reflects us just stepping into this market. Joe, we'll obviously update as we go, but positive for RoTE overall.

Ben Toms, RBC

Ben Toms from RBC. Question on the Investment Bank income growth profile. We were speaking to our US analyst yesterday and for the first time, he's now of the view that in terms of the Basel end game there won't be much softening in the rules as they currently stand. In relation to your guidance for the Investment Bank, how much of that would be baked into your growth aspirations? There was an interesting Oliver Wyman report which talked about $35 billion of revenues which might flow from the larger US players out to peers. Is any of that baked into your numbers or does that represent a pure upside?

And then secondly, on your structural hedge, your guidance for £170 billion swaps maturing over the next three years, rolling over 75%. When you compare that to the Q4 run rate or versus peers guidance out for the next couple of years, that feels sort of bearish. I'm just wondering maybe if you have a comment on this. Is there particular reason why the notional might see more attrition at Barclays, or does that just feel like relatively conservative guidance on structural hedge notional?

Anna Cross

Okay, thank you. So we are not making any Basel-related market share [gain] assumptions. Specifically over time we would expect all of the large banks to be able to react and adapt to the regulatory environment around them, and refocus and reprice and whatever they need to do. So, we may have a short term advantage in terms of clarity. Having had the clarity from the PRA around most of the larger markets pieces last year, I think we are now in a position where we understand what it is we need to do at a more granular level. So maybe that helps us a little bit, but we're not assuming anything material. And in terms of our US business, some of it is booked in the IHC, which is Basel end game rules, and some of it's booked in the BBPLC New York branch, which is obviously PRA rules. So, less than 10% of our capital, if you like, is in the IHC and therefore nose to nose with those competitors domestically.

On your second question. So on structural hedge, it's an assumption nothing more than that. I mean, we said on the day we do feel that there's a macro pressure downwards on deposits in the UK that comes from QT and normalisation post pandemic. It's nothing really beyond that, we wouldn't expect ourselves to be particularly more exposed than others.

Rohith Chandra Rajan, Bank of America

Thanks. Morning, Rohith Chandra Rajan from Bank of America. Can I come back from the UK growth aspirations please? So you're targeting a 30% increase in risk weighted assets and a 15 to 20% increase in revenues in that business or those businesses. And most of that revenue uplift seems to be the structural hedge. So I wonder if you can help us understand what the income benefit of that RWA growth is, and then obviously there are some big offsets to that. So that would be the first question.

And then the second is just on IB capital. So you're very clear about taking that down on a risk weighted basis to 50% of the group. Your comments earlier about distributing capital if you weren't able to grow the UK RWAs, so you are happy for it to be a little bit above 50% if that were the case?

And then historically the leverage capital consumption within the IB has been higher than the risk weighted level. Is that something that you are looking at monitoring, managing it all?

Anna Cross

Okay, so just on the first one, what I would say is that clearly over time those RWAs will build, so your income growth is going to follow the RWA growth, is the way I would think about it. And you do get sort of a J-curve effect in the UK as well, so all of your RWAs go in on day one, your impairment goes in on day one and obviously your income, particularly in cards, tends to follow that somewhat afterwards. So, I'd think about it that way rather than imagining they all sort of happen simultaneously. Does that answer your question?

Rohith Chandra Rajan

Well, a 30% increase in risk weighted assets is quite a lot. So even with that lagging I'd expect some of the benefit from that volume increase to come through. But it looks like all you're really signalling is the hedge benefit, so there must be some offsets then to the volumes.

Anna Cross

I think we're expecting continued deposit trends. So that's going to somewhat offset your structural hedge benefit because remember we're saying we're only going to be rolling three quarters of it. So we're assuming that the deposit trends that we are seeing will moderate a little bit, [but] will continue and you're going to see some margin drag from those over time. So you are not going to see a consistently escalating NIM purely on the deposit side if that helps. I also think that deployment of RWAs is going to be very, very steady over the period. So you're going to get a big lump with Tesco, obviously, day one. The income build will lag that, and then equally the RWAs are going to build up slowly over time. Now in BUK, I would say in some of the areas, they will build faster, [but] on corporate and SME build a lot more slowly. But we won't be deploying these RWAs unless we feel we're going to get a good return from them. So it is not that we're deploying them for the sake of deploying them. Clearly we would expect considerable income benefits to come from them.

And on the second point, so you're right, our hierarchy here is 12%, greater than 10 billion and then the 50%. So if we couldn't deploy the 30 billion RWAs, we would preserve the 10 billion, and the 50% might be slightly higher. But it's really that the focus for us is on free capital flow and generating good returns for the shareholder.

On your second point around leverage, you're right, we do deploy leverage into the IB at a higher level. The way I think about it is that leverage is inherently more flexible, however, and specifically our financing businesses, whilst they are RWA light, they are relatively leverage heavy. That's one of the reasons why we are a higher issuer in percentage terms of AT1s than many of our peers. And we are always looking at the cost of those AT1s versus the returns that we're able to achieve in the financing businesses, but we see that leverage as extremely flexible. And again, to Dan's earlier point, we're able to sort of flex it QoQ if that's what we need to do.

Dan Fairclough

Just to add to that, we do expect RWA density to actually creep up a little bit as a result of the advanced card switch and indeed Basel. So I think that will sort of regulate the relationship.

Adam Terelak, Mediobanca

Morning, it's Adam Terelak from Mediobanca. I have two on cards please . At first, we've spoken a few times around these tables around the spend over lend strategy in cards. Clearly that's changing. Now you're looking to deploy the balance sheet. How much is that the desire to balance the bank away from the Investment Bank. So using the balance sheet to do that and is that an active change in strategy?

And then secondly on the Tesco portfolio, it's been relatively consistent in size under its former owner. What makes you confident that you're a better owner to help grow that book?

Anna Cross

Okay, so we're still focused on spend versus lend. And actually Tesco is a big part of that, Adam. What's quite unique about Tesco is just the scale of the partnership opportunity that it gives us. And we've been able to deploy quite a lot of the learnings from the US, and indeed involve the US team in our acquisition of the book, because there's a high proportion of transactions within that portfolio. So it looks and feels actually in some ways closer to our US activity than it does our UK. And remember the RWAs will in part reflect the unused credit lines. So, we think it's a really important part of our spend strategy in the UK and fits neatly alongside what we're already doing in terms of Amazon and Avios, with other key partners in the UK.

In terms of the broader business, I mean we find it exciting that we've clearly entered into this partnership with them. We feel our brands are good partners together - very, very similar customer base - when we look at the customers utilising their cards, very similar to the ones that we have already. So, from our perspective clearly we have balance sheet capacity that they don't have and haven't had in order to be able to grow those businesses. Clearly that's a key objective for both us and for Tesco, and probably has been one of their thought processes behind the sale, as I think it is more broadly across that kind of business and they aren't the only ones seeking to do this. And also just what I said at the beginning, which is around the change in the UK consumer outlook. Greater desire to borrow post pandemic, increased confidence, reducing rates, we would expect that to come through.

Andrew Coombs, Citi

Morning, it's Andy Coombs from Citi. Firstly, US consumer, can you quantify what you think the impact will be of the legislation affirmed on late fees and attached to that I think you said about offsetting that over time. Given your target NIM expansion to greater than 12% presumably you're able to actually more than offset that. Perhaps you could just clarify.

And then second question, head office. Obviously you've moved more parts into that business including merchant acquiring. You've still got legacy funding cost in there. Anything you can say in terms of revenue outlook for that business and how we should be thinking about head office now?

Anna Cross

Okay, so just taking the first one, so the late fees legislation was exactly as we expected it to be and included in the guidance that we gave you. So we expected it to go to $8 and we expect it to land as a planning assumption on the 1st of July. So we think that's a reasonable assumption. I know there was some discussion yesterday that it might be delayed from there, but that's not what we've assumed. So you're right, we expect to more than mitigate it in comparison to some of our peers because of the relationship with some of the partners, we are actually able to recoup some of that through the partnership agreement. So we are not entirely relying on pricing to do that, but we would expect pricing to change through the industry. We're already seeing some signs of that happening. More broadly on NIM as well as pricing. The [other] things that we talked about were around our retail deposits, so still 100% branchless, but going from 60% retail deposits to 75%. So that's something that we think we can do over time. The balance at the moment of that 40% is largely brokered deposits, which are inherently more expensive. So it's really around improving the technology on the platform and the customer reach. The other thing is what we talked about on the day, which is really reaching more into the retail [partner] market, which will inherently improve the net interest margin.

Now at the same time we're calling out the same historic loan loss ratio, so I'm sure your question's going to be how you're going to do that then. And the answer is it's largely about the roll off of legacy portfolios, which have a higher loss experience, but not particularly high margin. Well, we've got own brand, but we've also got some legacy partner portfolios that are in roll off. The reason they're in roll off is because they were lower returning. So as they drop out, essentially what you're doing is you're filling the hopper with higher quality, higher margin, but retail business. So that's our objective there.

Head office: so we haven't given specific head office guidance. Clearly we have expanded it, but we wouldn't expect it to be expanded on a permanent basis. We've done that, as a strategic staging post both for German cards but also for the merchant acquiring business. So specifically what we're doing there is we're subsidiarising it, so that we've got a platform to pursue a number of options with it.

More generally in terms of merchant acquiring and its income outlook, I think 2023 was more challenging for that business for a couple of reasons. The first is just given the sort of focus of customer spending, as I said before, around affordability pressure. They tend to go for higher levels of essential spending. Essential spending as a merchant acquiring matter is much narrower margin. You get higher margins, for example, in travel and entertainment than you do on supermarket spending as an example. So we would see a normalisation of the economy will not only increase volumes, but will also increase the margin in that business. The other thing is we saw an increase in scheme fees as we went through last year, and the repricing is lagging those increase in fees, that also put a bit of pressure, particularly towards the back end of the year. So I'd expect to see some improvement in that business over time. But it's inherently it's a huge volume, relatively slim margin business. Any more questions?

Perlie Mong, KBW

It’s Perlie again from KBW. I don’t know if we’ve talked much about Barclays UK deposits, which is obviously something we’ve talked a lot about in the last few months. Judging from macro data and peer comments at Q4 results, it looks like deposit migration has slowed down a lot. Well I guess maybe some of that is perhaps seasonal as people maybe spent more over Christmas instead of thinking about where to put their deposits. Have you seen continuation of that trend or just how are deposits are playing out?

Anna Cross

Yeah, I think what we saw in the fourth quarter was the same as everybody else. A real slowdown of that trend. I think also a change in the pricing environment as well as rates stabilised. So I think it's both bank behaviour and consumer behaviour. One of the things that we observe is that the TFSME deficit that some of our peers had definitely alleviated over time. So perhaps that's also contributing to some of the competitive backdrop. That said, Q1 normally has some quite big seasonal moves in it, so you get people repaying their cards post Christmas, you get people paying their tax. And that's also true of businesses as well. Remember the UK's got business banking in it, so you tend to see a seasonal drop in deposits in Q1 and then it builds after that.

So let's wait and see, but I'd expect to see that trend. The other thing I would say is Q1’s got the ISA season in it and the ISA season tends to be relatively competitive. So you can see from pricing now, I would expect that pricing will increase between now and the 5th of April because it normally does. So you'll see a bit of intensification of that competitiveness and then it'll probably drop down again towards the second half. That would be my expectation. So I think in Q1, don't expect it to be exactly like Q4 just because of the seasonal impact. And then beyond that, it should quiet down again.

James Invine

James from Soc Gen again. Anna, we saw in the press a few weeks ago the government was looking to do things to help the banks. I guess the obvious thing from you would be the bank levy and the corporation tax surcharge, but beyond those, is there anything in particular that you think the government could do that would be politically acceptable but would make a difference to your life?

Anna Cross

That's a good question. We'll wait to hear on the bank levy and the surcharge. That's a purview of others. I think what I would say is that one of the reasons behind our greater confidence in the UK is that politically the parties seem to be economically at least relatively close together. So we don't see massive differences between them. I think we would say what's important for banks and for investors is stability in the regulatory regime. It feels like we're getting there on the prudential side, we've got one more shoe to drop hopefully in Q2, and that will give us the clarity that we need around Basel. I think that is important because it's ahead of some other jurisdictions, so that would be good to get in place. The second is hopefully some stability in the consumer and conduct regime again, with consumer duty behind us. I think we would say that we made some big progress there, hopefully that then stabilises. I think the last one would be probably a more specific statement around financial services and its importance to the UK more generally. So I'm not sure that's necessarily being openly recognised. I think they're very close to it, but that doesn't feel like it, that would be aa good position.

Alvaro Serrano

Alvaro Serrano from Morgan Stanley again. Two follow up questions. On the transaction with Blackstone, you gave some bit of detail, but how should we think about the revenue impact and how material could it be this year as you ramp up the profitability on US cards and you still have the disposal store: the JV payments and the German cards. Should we think about those disposals as upside to distribution or should we think that that gives you more room to reinvest? How would you invite us to think about it?

Anna Cross

Okay, on the first one, Blackstone. So I wouldn't expect a huge revenue impact this year. Over time I would expect it to lead to slightly lower income growth, but obviously a better RoTE outcome as we go to a forward flow arrangement. But in 2024, I wouldn't expect a huge income impact. I think probably the bigger factor will be the imposition of the late fees legislation in July as we expect it. And then the subsequent mitigation, there'll be a lag to that. So, you're going to see some lumpiness and income from that. So that's probably the bigger factor in 2024 versus Blackstone. There'll be a slight dilution in income, but not massive from that single transaction.

And then on your second point, which is the JV or exit. So German cards is not huge, so I wouldn't envisage that will be a specific consideration. It is one of the mitigants that obviously we're considering over time. But I wouldn't really call that one out. It's only really four and a half billion of RWA. So it's not a ginormous transaction on the merchant acquiring business. We have made no assumptions on sale in any of the guidance that we've given you, whether income, costs, distribution, anything. We have not included that in our plans. Simply because we are not sufficiently concluded in the direction of travel, we know that we want to pursue some kind of strategic partnership. And actually we think that could be either a partnership JV or a disposal. So, you know we haven't included that in the numbers that we've given you.

Rohith Chandra Rajan

Rohith from Bank of America. Could I just come back on I was just wondering if you could expand on this pre allocation of risk weighted assets for growth in the Investment Bank. Just talk through how that works please.

Anna Cross

So we've done some pre-allocation and there's some still to go. So, within markets, we talked about them having allocated some RWAs into the businesses that they want to grow. That's typically what they have done slowly in the past. So essentially what they're doing is they're picking specific parts of the complex. They are allocating RWAs to that business and then growing from there. So they do it in a very deliberate, very, very focused way. Honestly, it's no more technical than that. So that's happened already. What is still to happen is the reallocation that we talked about from investment banking into the ICB and into markets. So one of the ways in which we will increase the revenue over RWAs for investment banking within the Investment Bank is to grow the other areas of investment banking. So ECM and M&A, but also reduce its RWA footprint. And that happens client by client obviously as lending periods cease. So they have got a very, very clear view about when those facilities come to an end and what they would expect to do at that point in time. And that will then release RWAs within the Investment Bank and allow them to give it either to Markets or into the ICB. So that's yet to come. The markets that is essentially done.

Well thank you very much. Thank you for coming for breakfast. You can feed back on the table arrangements. Really good to see you. And any further questions you have, please reach out to Marina and the team and if not, we will see you in a distressingly short period of time for Q1 because it's not long. But thank you.

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