

**Barclays PLC Q2 2024 Results**

5 September 2024

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

**Anna Cross, Group Finance Director**

Good morning everyone. I hope you've had a lovely summer and you got a chance to get away. I'm going to start with a quick recap of our Q2 results, which quite frankly feels like it was a long time ago. And then I'm going to cover off a few themes that I know many of you have been working on and then we'll open up to Q&A. So in summary on Q2, we are on track and where we expected to be. We delivered a group RoTE of 9.9% for the quarter and 11.1% for the half, and we remain on track for greater than 10% for the full year or c.10.5%, excluding the business disposals. We announced capital distributions of £1.2bn comprising the 2.9p dividend per share and a buyback of up to £750m, the first instalment of our plan to deliver more than £10bn by 2026.

Similar to the first quarter, I personally was looking for four things [in these] results. The first was continued stability in the group income, so total income was up 1% year on year at £6.3bn, and that's despite the £240m loss from the disposals that we took. Excluding this, our income was up 4%. 73% of our income in the quarter came from our retail, our corporate, and our financing businesses, providing real ballast to the income profile overall and financing income was also broadly flat at around £800m despite the 2023 inflation linked positions that we called out at the time. So excluding that it was up 11% YoY.

So as a result of that, we increased our 2024 net interest income guidance for the group, excluding the Investment Bank and Head Office from c.£10.7bn to c.£11bn and for Barclays UK from c.£6.1 to c.£6.3bn. [Both] exclude the Tesco bank acquisition, which we now expect to complete at the beginning of November. As a reminder, we expect that to add around £400m of additional interest income on an annualised basis. And that increase in our NII guidance reflects both a faster than expected stabilisation in the deposit profile across the bank and also updated rate expectations. And you'll note that the assumption that we had was one rate cut in 2024 versus five previously. Importantly though, we are relatively insensitive to the short term impact of rate cuts, and I'll come back to that shortly.

The second focus area for me is cost discipline and making progress against our gross efficiency savings. We delivered £0.4bn of gross savings in the first half and we have good line of sight to deliver c.£1bn for the full year. As a reminder, what we're trying to do here is create capacity for us to invest in the higher returning businesses and we expect higher costs in USCB as we grow the book in a capital efficient way. In the Investment Bank, we delivered 5% positive jaws in Q2, and our aim is to show positive jaws over time to deliver sustainably improved returns. Overall, our cost income ratio was 63% in Q2, 62% for H1, and we reiterated our 2024 guidance for 63%.

The third focus area was impairment, which continues to trend positively. We reported a loan loss rate of 38bps for the quarter and 45bps for H1, below our through the cycle guidance of 50bps to 60bps. And the impairment charge in Barclays UK continues to be benign at just 1bps loan loss rate in the quarter and in the US consumer bank the charge reduced and the mix between write-offs [and provision build] has evolved as we guided previously.

The fourth area for me was capital. We generated around 80bps in H1 ending the quarter at 13.6% CET1 ratio comfortably within our 13 to 14% range. And we provided you updated timing on the migration to IRB models in US cards, which we now expect to be in Q1 2025, previously that was H2 2024, and that just reflects a refined

approval and implementation timetable. It does not impact our capital distribution intentions for this year or indeed through to 2026.

So that's a quick summary of our latest results. Let me turn to a few areas which I know are of interest to you. So firstly, deposits, and lending within UK. So on deposits, we took management actions last year that have brought greater stability in the second quarter. So specifically we improved our range of variable higher rate deposit products and we have also improved the consistency of our deposit pricing since Q4 2023.

And on the asset side, whilst net lending remained negative as expected, the gross activity has increased across the portfolios and that reflects our focus on growth. Gross mortgage lending was just under 20% higher than in Q1. However, this was more than offset by a high level of maturities. Application volumes were strong and we have a higher loan to value share, as per our stated ambition. UK card balances were stable at around £10bn. Acquisition volumes were strong and we added half a million new customers in H1 in line with our UK growth plans. As we said previously, this will take time to flow into the balance sheet. The other thing I would say is business banking gross lending also increased meaningfully offset by a pay down of government backed loans. We continue to expect net lending to stabilise in the second half of the year and grow thereafter.

From our net interest income perspective, we saw continued structural hedge momentum, which more than offset product margin pressures and looking to H2 we expect depositor behaviour to continue to stabilise and churn impact in mortgages to continue to be neutral to marginally positive.

Let me turn now to the rate environment, in particular our NII sensitivity and how our structural hedge program reduces income volatility. A few points of clarification on the program. We book hedges at various points across the yield curve ranging from 2 to 7 years, and therefore not all of our hedging is done at a 5 year tenor. We do this in order to manage the duration profile of our various portfolios, which explains why our maturing yield is not the 5 year swap rate, but fairly consistent at around 1.5% up to the end of 2026. We regularly make a forward looking assessment on the stability of the deposits, and this quarter we modestly increased our average duration from c.2.5 years to c.2.5 to 3 years. We assess this on a monthly basis, and within every passing quarter, we are locking in more gross hedge income. For example, by the end of Q2, we had locked in £11.7bn for the period 2024 to 2026 versus £9.3bn at Q1. We have had some questions about the sensitivity to rates in the downward rate environment. Slide 35 of our Q2 results presentation shows an illustrative and simplistic sensitivity to interest rate moves for our consumer banking book, including hedges, and given the high proportion of balances and the programmatic approach we take with our structural hedge, we have sensitivity to marginal rate changes that we believe is lower than many of our peers. In year one the impact is fairly benign, showing £50m lower income, which reflects both a lag effect from repricing, but also the modest impact from rolling the structural hedge onto lower rates in years 2 and 3. The structural hedge rolls they are by far the most material component.

US economy data drove a lot of market volatility on the day of and actually the days after our results in early August. And so it's worth a recap of where we are in terms of USCB's credit performance. Last year, we anticipated higher US unemployment, higher delinquencies, which are leading indicators for higher write offs. As a result, we took proactive actions to reduce credit lines and build reserves early. We saw a fall in delinquencies in Q2 versus Q1, but that is in part due to seasonality and higher customer repayments. And from here, we would expect future quarters to follow normal seasonality with delinquencies rising towards the end of the year. We acknowledge that consensus expectations for US unemployment have moved higher since the end of the second quarter, closer to where we had our macroeconomic variables for our investor update at 4.3% for 2024 versus 4.1% that we had at the half year. So our three year plan did assume that higher level of unemployment.

We're reassured by the quality of our credit book with only 12% of the book lower than 660 FICO and an average FICO of around 750. Our coverage levels remain robust at around 11% on an IFRS9 basis and 7.9% on a CECL basis. Overall, we continue to expect a lower H224 impairment charge versus H1 and lower 2024 charge versus

2023. And we reiterate our guidance for the loan loss rate trending towards the long-term average of around 400bps by 2026.

I'm now going to turn briefly to IB RWAs, where we flagged that the small increase in RWAs in Q2 was temporary and within the bounds of normal client trading activity over the quarter end. We remain committed to keeping IB RWAs broadly stable at 2023 year end level through to 2026, reducing the proportion to 50% of the group. And this goes hand in hand with our desire to improve RWA productivity in the business, which did increase by 40bps YoY to 5.9%.

So let me finish with a mention of SRTs, and the risk transfer trades more broadly. In our last fixed income presentation, we included two new slides on our risk transfer program, which we know have been a topic of interest for many of you. These trades are executed with a primary motivation to manage credit risk and we get an added benefit of capital relief, which helps to improve returns. I'm joined today by Dan Fairclough, our Group Treasurer, who I'm sure will be happy to answer more detailed questions on these programs.

So in summary, we are pleased with another quarter of progress. We remain focused on the disciplined execution of our plan and keeping pace with both the 2024 and 2026 targets that we shared with you in February.

With that, I'm happy to take your questions and have an open discussion. Please, can you introduce yourself, with your name and institution because this meeting is being transcribed.

**Philip Richards, Bloomberg intelligence**

I was going to ask about the Investment Bank and how you're seeing the trading. Obviously we saw the numbers in the second quarter and, it's not about next quarter now, but where do you see it on a two, three year basis and how much are you investing, etc.

**Anna Cross**

So I won't make a trading statement for the third quarter. What I would say is that obviously what we noted at the end of the second quarter was that our share of announced deals in banking was higher than our share of completed deals, and therefore we were comfortable with our pipeline, certainly for the second half of the year. And obviously you would expect us along with the rest of the market to monetise the kind of volatility that we've seen more broadly. So I think short term, happy with where we're trading.

I think longer term, what we're really trying to do here is put more stability into the Investment Bank in general. And the way we think about it is there's a natural offset and diversification between Markets and Banking. Typically, we see Markets do better in periods of volatility, and Banking do better in periods of stability, so you have that natural offset within the complex. But more broadly, our desire to grow financing, which is more sticky, more stable, relies on those deep client relationships. We're really pleased to see that grow and be around £800m for another quarter. That really provides ballast to markets. And then similarly, the way we think about the International Corporate Bank, within Investment Banking, is that's really the provision of more traditional banking products to those really, really large clients that we are providing banking fee services to, and again, we've seen good progress there.

One of the things that I'm sure you'll hear from our Investment Banking team on the 1st of October when they do their deep dive is they're really trying to leverage the relationship that we have from our strengths in Debt Capital Markets across the complex, not only into ECM and M&A, but all the way into the kind of transactional treasury products that we provide in the ICB. And you'll see that the deposit growth in that business is there quarter on quarter.

So our desire here is to, if you like, create an onward growing momentum in the income line, but really underpinned by that ballast from those two more stable businesses [...].

**Andrew Coombs, Citi**

On the SRT slide that you provided in the fixed income presentation, I think you gave four examples. There were two with credit link notes, and then you had an RMBS, and then you had the Blackstone US cards transaction. They are obviously all structured differently, but I'd love to get a few more thoughts on the economics of the transactions you've done. So particularly with the first two, there's a coupon paid to the investors that you hold the cash on escrow and get some money out of that? So anything you can give us on spread or just how to think about it from an economic standpoint.

And then the second question, a much broader question is, you've obviously highlighted this as an opportunity and you've done these four transactions. Can you give us some sort of idea of how big an opportunity this is and how regular you look at this, what more you think you can do, how much capital you could free up through these, etc?

**Dan Fairclough, Group Treasurer**

I'll take the second one first. We called it out in the fixed income investor presentation. For us, it's a relatively mature risk management tool. So when I say it's an opportunity, for example, the corporate loan program, which is £54bn, so the majority of the protection that we've got out there, it's a very well established program. We've been running it since 2016. It's sort of broadly at maturity.

We've obviously called out an opportunity specifically in the US Consumer Bank, broadly it's a sort of a long established risk management tool, and I think I'd probably focus on the US consumer bank as the bigger area [for more opportunity in this space].

In terms of the pricing, I won't get into the sort of specifics of it, but the way that we think about it when we evaluate the pricing is what is the cost per unit of RWAs of the transaction, the fee coupon that we pay to the investor. There are some other elements of the transaction like the earnings on the cash, and we think about that versus the RWAs on the balance sheet and also factor in what do we think is going to happen from a credit quality expect to get impairments on that portfolio. Then we factor that in terms of the economics. But as we said in the fixed income script, these are RoTE positive transactions, but we're primarily focused on the risk management perspective.

**Anna Cross**

I would just add, just to really highlight that position in terms of UK corporate, that is largely a risk management, or that's a primary motivation, with capital following, and that's giving us real cash protection in the event of an actual default. It gives us protection in relation to the calculation of IFRS9, and we're also recognising it as a mechanism in our stress testing. So it's fully encompassing there and as Dan says, we see that as mature. Clearly spreads are pretty tight at the moment, and that's been good, but it is a mature program with good demand for it, given its maturity.

I think on US cards the way I think about it is we have a desire to grow this business and grow it for our partners and therefore this kind of SRT mechanism allows us to do that without deploying too much capital into this business and keeping it at a reasonable capital level. So this is a business where we are able to grow organically and inorganically through partner acquisition. So it's really important in managing the overall capital level in the US.

**Robert Sage, Peel Hunt**

I suspect these could be very quick questions you probably won't want to comment on either, but my understanding is that for Basel 3.1 there's going to be an update next Thursday, the 12th of September, and I know you've given guidance in the past. I was just wondering if you had any comments, since we're now so close to hearing what hopefully the final rules are going to be?

And the second point is just speculation through the press that maybe because the banks have got broad shoulders, maybe they're going to be used as some kind of source of income for the government in terms of probably an increase in the surcharge, and really just any sort of thoughts generally around that would be of interest?

**Anna Cross**

Okay, thank you. As you say, both very difficult questions to answer. So the first one's really quick. Yes, we do expect a final position next week, next Thursday. I don't have any more insight, so I just reiterate the guidance that we've given you already and obviously as soon as we get those final rules, we will be sifting through however many thousands of pages that they involve and we'll update you appropriately once we completed that exercise.

On the second matter, if I think back to a year ago, we made the decision that we wanted to invest in the UK. So our desire that we expressed on the 20<sup>th</sup> of February, was something that we've been thinking about for a long time, and that reflected our view, both of the political stability, but also the economic stability of the UK.

It feels like the economic pathway since then, and actually the political desire is in alignment with that. So if I listen to what the government is saying, they have a deep desire to grow the UK economy and improve the productivity of the UK, and strongly linked to that, they would expect that to be supported by investments. From the conversations that we've had with them, that's certainly the case. In order to do so, companies will need to invest and banks will need to lend. So it fits our strategy very nicely. So I would hope that they have that in mind as they move towards the budget.

I think the other thing that we clearly know and understand as do they, is that the UK banks are some of the largest taxpayers in the UK anyway, not only because of the surcharge that we already have, which is 3%, but also because banks are largely unable to recover VAT. So we are some of the biggest taxpayers in the UK. So I would also hope that they are reflective of that point. Beyond that, I have no insight. We have not engaged with them on the topic. It's their purview and obviously they're the folks that need to manage the budget overall.

**Robert Sage**

Yeah, thanks. Could I just have a quick follow up on the first bit? My understanding of your existing guidance on Basel 3.1 is the low end of 5 to 10% [RWA inflation], but I think that includes the US consumer bank, or am I wrong in that? Yeah, so by implication you'd expect below 5% purely from Basel 3.1.

**Dan Fairclough**

£16bn from the impact of US IRB cards. So you can do the maths from December 2023, it's a bit less than 5%.

**Anna Cross**

Okay, let's keep going, thank you.

**Ben Toms, RBC**

Firstly one on RWAs, I think one of the kind of eyebrow lifting moments in the Q2 was the increase in RWAs in the investment bank. I think you talked about there's £3bn in there that were temporary differences. I'm just wondering what are your certainty levels of that £3bn reversing in Q3 at this point in the quarter.

And then secondly on mortgage spreads, I know you won't want to comment on Barclays' mortgage spreads precisely, but mortgage pricing has come in a little bit. I was wondering if you could provide some colour on whether spreads are holding up Q3 versus Q2. It looks like from the data that they are, but I guess commentary in the market is a little bit different to that. So just some colour there, please. Thank you.

**Anna Cross**

Okay, thank you. Just to cover off the IB point, as you can imagine over any particular day, weekend, month end, quarter end the level of client trading activity in the IB will vary. This was a little higher at the end of Q2 than it was at the end of Q1, and that's reflected in a slight increase in the RWAs. But it's a normal level of variation. It's nothing that we would particularly point to and therefore the way I think about our RWA guidance for the IB is our expectation is that it's going to be broadly flat through the period. In any particular quarter it's going to be above or below the number that we had at the year end, and that's just normal. There's nothing else I would add to that.

In terms of mortgage spreads, you're right, we don't comment on our own spreads. You'd expect us to be broadly in alignment with the market. I think we are satisfied with the spreads that we're taking, they're not markedly different. The thing that I would call out more specifically for us is what I've said in my opening comments is, as a portfolio matter, we are benefiting from the fact that the negative impact of churn that we saw in 2023 is now behind us and we are seeing neutral to positive impacts from repricing. So that downward portfolio pressure has definitely eased. And the other thing I would say is that obviously for us, because we are introducing higher levels of high loan to value, that has a positive impact on the blended margin overall.

**Ben Toms**

Just on that spread point, the slight tailwind you're feeling from the back book, front book dynamic, can you just confirm that trend continues into 2025? That's not just a 2024 thing. That's from here on if pricing stays around current levels?

**Anna Cross**

I would say assume it is going to be broadly neutral over time. I mean what we experienced last year was a position where you had Covid period loans rolling off and they were on higher margins. So throughout 2023, there was a big difference between those front book and back book margins. Now they're more aligned. And then what you've seen is a broad stabilisation in margins since that point. I don't think we're anticipating any massive change in what we see right now.

**Kian Abouhossein, JP Morgan**

I just had a few question on the structural hedge. On modified duration, do you give that number?

And then in respect to the structural hedge, what I try to understand is the process of managing NII, [as we see] rate cuts. Let's say they change and how you manage the structural hedge around it. So I want to understand how it's balanced to manage the NII, through the structural hedge, and the process around it?

**Dan Fairclough**

The only duration number we give is the weighted average duration of the hedge portfolio. And of the way we exercise it, we focus on it as a risk management tool. It's relatively insensitive to a particular view on rates. What we're trying to do is manage the overall balance sheet back to a floating rate basis on both assets and liabilities. And on our liabilities and on our equity base, we've got a significant amount that is fixed or deemed fixed. So we're looking to swap those to floating rate. So we will do that on a programmatic basis. What we'll do constantly is evaluate each of those deposit cohorts in terms of our expectations of stability. So that is a more likely view in terms of how we might change the portfolio rather than rates per se.

And the portfolio is very programmatic and as a result there are very significant regular redemptions of swaps that gives us the flexibility to decide do we want to reinvest back in the swap market because we view that the deposit stability is there or do we want to not roll those swaps because our view on deposit stability's changed. But it's all about the stability of the balance sheet rather than rates per se.

**Anna Cross**

The only thing I'd add is, over time, once we see a pattern of pass through or once we see a pattern of customer behaviour, of course we would reflect that in the hedge program, but I wouldn't regard it as individual decisions or individual pricing decisions. It's more looking at the portfolio as a whole. As Dan said, once you start to see an accumulation of those, then you'd start to reflect them.

**Robin Down, HSBC**

Question, just one quick numbers question on the US card business, the £16bn RWA uplift was obviously intended for like the second half of this year. Talking to Daniel, I think you forecast that the risk density then would come down over time, I think through managing unutilised limits, etc. So given that we've got a delayed implementation by six plus months, is that £16bn figure still the right figure or should we be expecting that to be a little bit lower when it's actually implemented in first half next year?

Second question, and I'm not sure I'm really going to get an answer for this, but, I'm just trying to explore a little bit how you're thinking about the savings market. As you said earlier, I think your interest rate sensitivity structural hedge component is pretty close to zero at this point. There is a bit of a lead lag effect. If I look at what you are doing in the savings market, I think you are not moving savings rates down until December from that August base rate cut, which feels like an incredibly long lag. And I don't know whether you've assumed in that sensitivity model you give us. I mean in contrast, one of your peers is moving their retail deposit rates down today. Why are you lagging five months? Surely that's not a regulatory decision. You don't have to give that much notice. I was just trying to explore a little bit what your thinking is there.

**Anna Cross**

So let me start, on US cards, I distinguished Basel implementation from our plans around moving the modelled basis to advanced. So any delay in Basel, which I think is what you're referring to.

**Robin Down**

No, it was more that I think there was going to be an ongoing process of trying to mitigate that £16bn, and therefore with the £16bn not coming in until six months later, whether you would've done some of that mitigation beforehand.

**Anna Cross**

No. So, all we updated you on was a change in timing. Certainly we would not change our expectation on that number at this point in time. So I'd still continue to assume that what we're saying is a couple of things really, Firstly, we have these capital mitigation plans in place both around SRT, but also the line management that will take some time to work its way through, Robin. So I wouldn't assume that six months would make too much difference to portfolio costs.

You've got portfolio growth going in the opposite direction. The other thing I would say is that because of the time when we called out the implementation, clearly we're at a slightly higher level of delinquencies and these models are much more risk sensitive than the previous standardised level. So that's another thing that was causing us to indicate that a more normal run rate when you see delinquencies normalised would be a slightly lower risk density.

In terms of savings, I'm not going to comment on our savings pricing strategy other than to say, I think the regulatory time period is 60 days. So ordinarily we would expect a two month lag, but I'm not going to comment on our pricing strategy more generally.

**Robin Down**

But, is that the 60 days, that you put into the scenario analysis that you gave us?

**Anna Cross**

Yes, so when we do our sensitivity table, that lag effect would reflect the 60 days.

**Sanjena Dadawala, UBS**

Two questions please. First on the UK Corporate Bank. So just on the [cost: income ratio] target of high 40s from Q224 [level of] 53%, so the target is driven by high quality income growth across broad categories or broad sources. Could you talk about that in the context of low credit growth in the UK and the pricing strategy to achieve that? And also how you think about the downside to revenues on lower rates, given the excess liquidity position?

And the second on [Group] cost and targeted cost saves from the nearly £1bn in SCAs. So the about half billion in the second half, the gross cost savings, where would these come from and longer term, how do you think of the scope to run at a lower cost to income ratio than the targeted high 50s? Or perhaps would that need big further upfront costs?

**Anna Cross**

Okay, thank you. So UK Corporate Bank, the way we are thinking about this business is quite broad based in terms of its growth plans. So you have our desire to continue to grow deposits in line with the market, our desire to increase the digital presence of that business. And in terms of digital investment, if you listen to what Matt [Hammerstein, the UKCB CEO] said in June, you would understand that clearly we're in a period now where we're really investing in a platform called iPortal, which will allow us to retire some of the legacy interactions we have with clients and will also bring everything into one place. We believe that will really allow us to deepen relationships on the one hand, but will also allow us to reduce costs both in terms of platforms, but also manual effort from the colleagues that we have within our corporate business operations.

So those things are really important. The third leg of that is lending, as you say, and it's linked very much to that digital capability because it's not just the willingness to lend, which is in part our risk appetite, that again as you



talked about and our desire to sort of lean into UK growth, but also our ability to facilitate that lending to clients quickly. So really improving that customer journey. So they're making good progress on it and we're hopeful that we'll start to see some lending growth in our corporate business, if not this year, then certainly into next. So good progress.

I think more generally in terms of the cost takeout for this year, we delivered around £400m in the first half. We have good line of sight for that c.£1bn for the full year. As we called out at year end 2023, that relates to three things, people, property and infrastructure. And it's the fact that it's those three things that gives us really good line of sight because obviously we have well established plans underpinning those.

Beyond that point, when we put together our high 50s cost: income ratio targets, we were reflecting that many of the businesses that we have are some way away from what we felt was peer best in class. And we said on the 20th of February that whilst we wanted to make steps towards that, we felt that it was unrealistic for us to assume that we would get there on all of our businesses in such a short period of time. So you're right to question that the cost journey should not stop in 2026. We would expect to continue to drive efficiency in the businesses, but I would think of it very much as efficiency. It's not just the cost line in isolation, it's actually about being able to invest in technology so that the growth that you have is much, much more cost efficient.

#### **Pete Richard, Berenberg**

Morning, this might be an un-answerable one, it might be a bit of a niche question, but relative to quite a few of your peers, you've held quite high liquidity coverage ratios and also within that have held relatively more within Bank of England reserves. I was just wondering if it's possible to sort of elaborate on how much of that is an active choice, how much of that could change over time and I guess just your approach to that level and composition of liquidity that you hold.

#### **Dan Fairclough**

Yeah, the total liquidity coverage ratio is somewhat an output of the balance sheet that we've got on the client behaviour that we see. And clearly we have some active decisioning in terms of where we deploy it, but that's probably more focused on an RWA returns lens than a liquidity lens per se. So the liquidity ratio is somewhat a function of the balance sheet that we've got.

Clearly we've had significant increase in deposits post Covid reflecting the monetary backdrop and our liquidity position and indeed the liquidity position of most UK banks, most major UK banks sort of reflects that broader macro view.

Clearly how we deploy the liquidity pool is very much an active risk management commercial choice for us. We probably do run slightly higher cash balances than others. I won't comment on what's behind their thinking, but one of the key things that underpins our risk management approach is stress testing. And we apply that right away across the balance sheet and that really determines how much risk that we are prepared to take and we will stress positions that we've got in the liquidity pool, both sovereign and asset swap positions. And so that sets a sort of box around the amount of risk that we're going to want to take in the pool [...].

#### **Anna Cross**

The only thing I'd add is that particularly if you compared us to our US peers we would also be faced with a different regulatory environment that would lead to a different shape of that pool. So specifically around the supervisory outliers test to probably hold more cash than you would typically see in the US banks.

**Dan Fairclough**

Yeah, there's also a difference in leverage treatment in US versus UK. So we won't have leverage attached to reserves at the Bank of England, for example. So it may be more versus US banks.

**Kerry Shaw, Morgan Stanley**

I just have one question left that hasn't been answered and it relates to the mechanics of the hedge in terms of thinking about rate cuts going forward. We already spoke about the remuneration on the instant access not changing until December, so I just wanted to ask the same way that banks will swap the one year fixed term deposits. Do you do anything similar with the instant access? Because the thinking is that, you've already got that locked in, that pricing change won't come into effect until December, so it shouldn't really impact the third quarter. So the questions not related to a third quarter NII, but just thinking about mechanics of the hedge going forward.

**Dan Fairclough**

Fixed rate products we will hedge to the fixed term, but we will take into account, the date of maturity across the portfolio view. On products where we determine the margin, so a managed rate book or managed rate savings product, we will take a view on what we think the pass through is likely to be given the experience that we've had, given our perspective on the market and we'll hedge to that as a sort of proportion of the book. And then instant access, or NIBCA products we will generally view as a fixed rate product as zero. So there's no particular dynamic there in terms of the rate change.

**Jordan Bartlam, Mediobanca**

Just had a quick couple on the IB. I was just wondering if you'd give us a bit of an update on how market share growth is going within the three focus areas. So securitised products, European rates, and equity derivatives. And within that where the confidence really is coming from about allocating further RWAs to those business lines, that you can improve revenue growth and compete against unconstrained peers. Alongside that, is there some risk that there will have to be more risk taking within those business lines in order to reach those goals.

Secondly, within the ECM business, I think that the two of you pointed out that there was a one-off or elevated element in terms of national grid, a rights issue. I wonder if there's any way you could quantify that or if that is truly a one-off that we shouldn't carry forward to next year.

**Anna Cross**

Okay, thank you. Unfortunately in Global Markets the absolute market share data tends to lag. So if you're looking at a banking business, like Investment Banking, then you get it almost real time through Dealogic. In Markets, that coalition data is somewhat a lag.

So I can only talk about how we feel about those businesses and the progress that we feel we're making. I think we spoke before, we're really happy with equity derivatives. It feels like that's performed well, particularly year on year, and that's sort of more generally within our equities complex, including the prime business in financing feels like that's performing well.

On securitised products, that is a relatively small business for us. We have been growing it steadily over the last few years. Actually, what's really helped in the first half is the market has been very conducive to that type of product. So we've been able to monetise some of the market opportunity that we would have been unable to do previously, so that feels good.

I think on rates I would say rates across the entirety of the market have been difficult. That's clearly been a big business for us in the past. So that's the one where we still feel we've got more to do, but that's as much about the market around us as anything else.

In terms of RWAs, when we talked on the 20th of February and actually Adeel had a good slide on this, we've already allocated the capital to those businesses that we believe that we need to grow because if you looked at how we've allocated RWAs and where the income comes from in the Markets business, the areas where we are already top five for our clients are really, really efficient. We've already allocated the RWAs that we need for growth within those three businesses. So we don't feel that it's constraining us.

As to your point around risk taking, we manage risk extremely carefully within our Markets business. We do not feel that the plans that we have require higher levels of risk taking, and I call out a couple of things. The first would be we talked in February around loss days in our markets business,. In the first half of this year we've had one loss day in markets - in Q1 zero in Q2 one day. And when we look at the VaR, the VaR is not elevated. So we are not taking more risk in order to pursue our strategic plans and that's really important.

So to come to your second question regarding ECM, I wouldn't regard it as one off. I would use the word episodic. And the reason it's not one off is this is a client focused business. National Grid is a client that we've had for a long time, a corporate broker client, and it reflects strategically what they're trying to achieve, which is that corporate clients feed the Investment Banking fee business. The Investment Banking fee business should also do the opposite. So it's part of the strategy. So I wouldn't say that it's one off at all. You'd expect them to be lumpy for clients to do something that large, which is why we called it out and certainly in the context of the size of our ECM business, we expected to do that. And I mean it's publicly disclosed so can have a look what the fees are.

#### **Guy Stebbings. BNP Paribus Exane**

A couple sort of circling back on deposits and rate sensitivity. I'm struggling to fully reconcile the rate sensitivity, which as Robin alluded to is quite negligible because the hedge. In BUK there's £237bn deposits, you've got £189bn of product hedge at a group level, £239bn total. Obviously only a subset of that is in the UK. I think you probably said a bit more than 60%. So if I try and exclude that from the deposit base and account for time deposits, it's still an implied component of unhedged deposits. Which to me points to a slightly bigger number than I get to in some of the [disclosure you've provided]. Am I missing something there? Especially once you think about the lag in the pass through.

And then linked to that, in terms of price cuts that we've seen in the market since August on instant access savings, it's obviously very early days, but, it's quite hard to gauge from the outside given multiple products and looking across the industry. But given those movements thus far, is somewhere around the 50% mark as good an assumption as any in terms of pass through that you might expect to see for a large mainstream bank. And can you remind us what your assumption is on pass through within the rate sensitivity?

#### **Dan Fairclough**

Yeah, I think maybe the difference here is what we're particularly focused on is the deposits that are fixed, and that's where we have got the rate sensitivity, we've got outright deposits that are definitely fixed like NIBCAs, the rest of the book, the element that is fixed is going to be a determination as to what do we think the pass through is. The first question leads into the second question, so I think probably what you're doing is you've got a slightly bigger deposit book and we would say that only a portion of that managed rate deposit book is actually fixed and therefore creates an interest rate risk exposure. But maybe we can work through the numbers with you afterwards try and get you comfortable with that.

**Anna Cross**

And on your second point, I think the point to sort of recognise here is clearly the rates on instant access, certainly for us raised more slowly through time as rates went up. And that probably reflects some of Robin's question as well. I'm not going to comment on our pass through assumptions, we're not going to comment either on mortgage pricing or indeed savings pricing. But, I think you can observe the market more generally, just trying to feel its way. Just as we've never experienced a rising rate in an internet enabled environment, we haven't really experienced a falling rate in an internet enabled environment.

**Guy Stebbings**

Just in terms of taking a step back, big picture in terms of the behaviours we've seen though, it feels broadly consistent with what you might have expected to see.

**Anna Cross**

Very, yeah.

**Guy Stebbings**

And we can take some reassurance in some of the smaller players that paid up hundred percent on the way up as if they're paying down hundred percent on the way back down.

**Anna Cross**

Yeah, I mean, what we're seeing is the continued stability in deposits. You're not seeing any degree of market volatility coming as a result of those rate cuts. And I don't think we are seeing any pockets of pricing which we would deem to be commercially not rational.

**Dan Fairclough**

Competition is normalised as well compared to where it was at the back end of the rate rising cycle. So both the smaller challenger banks and the NS&I product were distorting the market a little bit and it's now much more normal in terms of competition.

**Anna Cross**

Yeah, I think that's right, if you look year on year, the amount of the TFSME deficits are much lower. If you look at that NS&I product it's back open but [it feels like it's structured much more differently].

**Patrik Nilsson, Goldman Sachs**

I just had a question on the SRT dynamic because I appreciate you mentioning it's a relatively mature program and of course it benefits the credit risk part of the book, but are there any risks there in terms of counter parties or anything, more broadly that you would like to point out? Or is it more quite straightforward and you don't really see anything there?

**Dan Fairclough**

Look, it's designed to not have additional risks in it, and the regulator has obviously got a very sort of strict set of requirements for a transaction to be judged as significant risk transfer. So it's a pretty tightly controlled market and set of structures. There is a significant credit risk in the transaction, but either the transaction is a true sale where the cash has been received, or the transactions are cash collateralised against the counterparty. So there's

not counterparty risk in the transactions and the regulators specifically design them to make sure that that's not in there. So for us, they're complicated transactions, but at this point they're relatively straightforward and repeatable.

**Anna Cross**

Thanks, Dan. The only thing I would add is the other risk that we're mindful of is maturity risk, and therefore the program is that only a certain portion of it will mature in any particular quarter. We've got a well established program that we believe would continue to perform in periods of stress. That's one of the reasons why we've run it very consistently over time but we manage it so that sort of no more than £2.5bn is maturing in any quarter, so that it's in a manageable amount if the market were closed for a period.

**Dan Fairclough**

The rundown of the transactions also reflect the rundown of the loan portfolio after the first three years as well for the Colonnade program. So you get active decision as to whether you want to refinance the loan or not.

**Priya Rathod, Jefferies**

Priya from Jefferies. Just a general question on loan demand as we're going into Q3, particularly for UK corporates and in light of the budget comments. Are you seeing any changes in corporate behaviour, for example, delaying investments or inertia in investments going into Q3?

**Anna Cross**

Okay, thank you. I'm again not going to make a Q3 comment, but I think generally speaking, what we see across UK corporates is, as Dan referred to before, you know, very high levels of liquidity. And we've seen across the market more muted demand for a fairly lengthy period. I think reflecting the economic environment in the UK more generally, there are not massive seismic shifts in those behavioural patterns at this point in time. But as much for us, our strategy is based on our relationship with our clients that we already have many of those clients already borrowing frequently elsewhere and us making it easier for them to borrow with us, but also ensuring that our risk appetite supports that borrowing. So, to a certain extent we're not relying on a significant change in that corporate behaviour.

**Kian Abouhossein**

Let me just follow up on the structural hedge. Clearly the regulator is encouraging you to stabilise [...], very different from some other regulators - particularly Sweden. I'm just trying to understand how you manage the liquidity risk in that context, because clearly in the UK, structural hedge of the deposits is actually a very, very big component, and we've had the event in the US last year, regulators think about it differently. So internally I'm very interested how you think about that.

**Dan Fairclough**

To some extent we think about it more separately than maybe you would in the US because we manage our liquidity risk through holding of securities or reserves in the liquidity pool and manage our interest rate position on deposits through a series of interest rates swaps. So for us, they're somewhat separate.

In the US for example, they're obviously much more commingled where you might use assets to provide your receive fixed position from an interest rate perspective. But we do view them as separate. The UK regulatory environment encourages that and we actually think that it's a [benefit]. But clearly there is a co-mingling between the two in that if you get deposit outflow, you could then find yourself in a position that you are over hedged,

irrespective of the fact that you've got the reserves in the pool. They're floating rate reserves so there's no interest rate element there that you may find that you've got an over hedged position because you've got swaps, but you haven't got the fixed rate deposits on either. We've thought about that very, very carefully over the last three years. Has been something that we've been laser focused on. The first mitigant of it is the one that we talked about earlier on the fact that you've got a significant amount of hedge maturing on a very programmatic basis every month. So every month you're taking a forward view on do I think that the deposit environment or liquidity environment has changed? And obviously we have run down the size of the structural hedge over that period because we wanted to be cautious about the deposit dynamics. If you found yourself where deposits blew out more quickly and you didn't capture it in terms of your roll decisions, you would then be able to put in place an offsetting swap. And what that would mean is that you would just reverse the swap that you had and that would accrue into income as a negative over time [...]. So you've got levers to manage it. For us, we focus in particular on the maturing amount and whether we want to redeploy that into the swap market or not.

**Anna Cross**

Thank you Dan. The only thing I would add is that when we are looking at our rate insensitive balances that we want to put into the hedge program, we will not hedge all of those. So we will hedge a proportion and then we're also maintaining a buffer. So when we are going through that sort of monthly decision point, and for us it is monthly and we're looking forward, we are assessing whether or not we want to replenish that buffer. If you look at what we've done over the last sort of 18 months, some of the programs we've paused the hedge roll, probably faster in corporate and then later in retail, and then we sought to put them back on again when we feel more comfortable and we've been able to replenish those buffers. So I would reassure you in that we're cautious about the amount that we hedge, we maintain those buffers and we're also looking at it on a monthly basis. And as Dan says, we've got £5bn to £6bn on a monthly basis that we can choose to roll or not.

**Robin Down**

Quickly, about Tesco coming in a few weeks. Talked about the revenue side, I guess we can all kind of work out impairments. What about the cost side with Tesco, are we going to see a kind of day one restructuring charge, structural cost action, and how much of the cost base do you think you actually need to keep from Tesco or can it just be pulled onto the existing Barclays system? And most of the existing Tesco cost base kind of disappears?

**Anna Cross**

You're going to see day one impacts across the P&L. You'll see a day one impairment impact, you're going to see an onboarding of the business more generally. I think what we would envisage with Tesco is you'll see an integration that will happen over a period of time, Robin, simply because, it's a large file, it's a very important client to us. We want to ensure that we have complete continuity of service for those customers. Clearly there will be some capability that they have that we think is very attractive. So, there will be some sort of two-way capability sharing here, but I would expect there to be, and our business case does expect that we would drive some cost efficiency out of this. As the specific levels, we'll obviously update you when we do that completion, we'll give you some views in Q3 and then in Q4, once we've actually completed, then we'll give you more guidance.

**Guy Stebbings**

Quick one on the mortgage market. The latest data's been pretty encouraging. When we look at new buy inquiries they're up. Given the direction mortgage rates, it still feel like it's a slightly better backdrop than we maybe envisaged six months ago. So just keen to get your perspective on that. And then within it, given where rates have moved to, given the benign asset quality, the a proportion of your lending that you can deal in slightly higher LTV, is that perhaps higher than you initially envisaged?

**Anna Cross**

That's a good question. So, I would say that the mortgage market is both higher in level and more stable than we've seen more recently. And that's really good to see. So if you look across the second quarter, you're seeing very consistent levels of market growth lending months in, months out, which is really good. And seeing first time buyers come back to the market is really important because it facilitates the house purchase chain. So we moved from a market that was very much dominated by remortgages into one that's perhaps a bit more balanced, which is good. I think that's not just rates coming down, but I think even before then the stabilisation of inflation and inflation coming down and the stabilisation of rates meant that consumers were more likely to walk back towards the housing market.

I think that almost preceded the rate curve in terms of high loan to value mortgages. As you might imagine, we set yourself a risk limit around that. So certainly at this point in time, we feel we are delivering to the plan that we've previously set out. That's exactly what we want to do because we don't think about these things [at the point in time], a bit like all of the discussions around the structural hedge. We're not thinking about them [at the] point in time when we're making decisions about the risk that we put into a mortgage portfolio. We're thinking about that also in a stressed environment and over the longer term. So, we wouldn't react in terms of our risk mandate to more opportunistic elements in the market.

Any last questions? No. Perfect.

Well, thank you very much for coming along. Great to see you, it won't be long before we see you again in this room. Again, Q3 is fast upon us and we may even see some of you at the [Investment Banking] deep dive [on 1 October]. Yes, please come along. It will be here and also webcast. So it would be great to see you, and also there's obviously some conferences coming up so we'll see some of you there. Okay, thank you.

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