Barclays PLC Q1 2024 Results

14 May 2024

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

Anna Cross, Group Finance Director

Let me make some opening remarks and then obviously we can start off with some Q&A.

The first thing to say is hopefully you've noticed a change in the way that we are presenting ourselves to you and the way that we communicate to the market. We're aiming for consistency and we're also aiming for accountability against the plan that we set out in February. So we are going to repeat these disclosures, quarter after quarter, and some areas in here will take a little longer to show progress, but they're important to us, and therefore we think it's important that we show our progress against them to you. So we're going to keep reporting this way. You've heard on the day of our Q1 results that we're really focused on disciplined execution, first and foremost, that is our objective. And Q1 was very much in line with a plan that we'd set out nine weeks earlier. And of course, given that in mind, we reiterated all of the targets that we've given you on the 20th of February, both for 2024 and for 2026. We had Group RoTE of 12.3% in the quarter, and that was where we thought we'd be.

Going into the quarter, personally, I was looking for four things. The first of those was cost discipline and progress made against a gross efficiency target for 2024. As you know, we've guided to £1 billion of gross efficiencies for the current year and I was really happy to see that we delivered £0.2 billion of that in the first quarter. Number two that I was looking for, was real stability in income and particularly stability in net interest income, which was flat year on year. 68% of our income in the first quarter came from our retail and corporate businesses, and financing, which was also pretty stable. And these businesses, the way we see them, provide real ballast to our efforts to grow from here. So that's why it's so important. The third thing was continued good credit performance. We reported a loan loss rate of 51 basis points at the bottom end of our guidance of 50 to 60 through the cycle. And again, that's important to see that stability, particularly in the UK as we now start to grow and fulfil our targets. And then finally, maintaining a robust capital position landing bang in the middle of our target range of 13 to 14%, finishing the quarter at 13.5%.

As you know, we continue to target a RoTE of greater than 10% on a statutory basis, or around 10.5% excluding inorganic actions. But we do expect a different quarterly shape to last year for a few reasons. The first is that in 2023 we had an impairment charge, that particularly in US cards, was more back-end loaded. And we saw the reserve build in the US Consumer Bank. This year we expect it the other way round. We expect to see that reserve build more significantly in the first half, and indeed for the full year, the charge to be lower than 2023. The second thing is, if we remind ourselves where we were last year, we did see a sharp rise and then fall in the UK NIM. So there was a profile in net interest income that was quite different last year. This year we expect to see more stability from where we are. Particularly with respect to the deposit effects that we saw last year, the sharp outflows and the migration effects have clearly stabilised and we expect to have a continued tailwind from the structural hedge as we go through the current year. Thirdly, as a more technical matter, the movement in the cash flow hedge reserve was obviously quite significant last year, going from being very negative to less so by the end of the year. And whilst that's positive for TNAV, it clearly puts some pressure on RoTE. The Bank of England levy in the first quarter of this year had an impact of 70 basis points. Over the full year we expect it to be more like 10 basis points. So clearly that's impacted the first quarter. And then finally in investment banking, Q1 last year was a very strong quarter for fees, and then we saw the whole market wallet fall off to a decade low. So, we took an opportunity to reposition our business during that period of time to set ourselves up for our

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current plan, but we wouldn't necessarily expect the same stark change to the market wallet as we saw last year.

On capital, our CET1 ratio was 13.5% at Q1. We're comfortable with our flight path and we reiterated that we expect our capital distributions in 2024 to be similar to 2023, which was £3 billion and that's really because we continue to generate strong capital from the business and expect that to continue for the rest of the year commensurate with that greater than 10% RoTE target and building on the 44 basis points that we generated from AP in the first quarter. There was the usual seasonality in RWAs in Q1, and we expect that obviously to unwind as the year goes on. And then of course, we have the impact of inorganic actions. So we expect to complete the Tesco bank acquisition in Q4, and for that to impact our capital by around 30 basis points. I'm not going to comment on the specific timings of the German consumer bank business sale, but when completed, we would expect that to be capital accretive and provide some offset to the Tesco Bank acquisition. And you can see that the Italian mortgage disposal is broadly capital neutral and is expected to close in Q2. We continue to guide the impact of US cards IRB migration to happen in Q3 and for that to be an impact of c.£16 billion pre-mitigation. The Blackstone transaction in Q1 was an example of the mitigating actions that we are taking, and we are continuing to work really hard on RWA efficiency across the group more broadly and particularly in US cards.

In cost terms, we reported £4,175 million of total cost in Q1, including the £120 million as a new Bank of England levy, and we reiterated our guidance for circa 63% cost income ratio for 2024. As I mentioned, we do expect to have £1 billion of gross efficiencies for the full year, and we expect to make further progress in Q2 and we'll update you on that when we report. As we told you, in any given year, we do expect to take structural cost actions of between £200 and £300 million, which we don't typically call out, but I'll just mention that they can be quite lumpy in nature, and you'll have seen recent press reports about headcount actions that we have taken. So you should expect slightly more of that in the first half than in the second half. But to be really clear, those structural cost actions are included in the cost income ratio guidance that we've given you of circa 63%. And in addition, I'd like to remind you that inflationary effects in the cost base tend to impact from April onwards, because that's when we see the pay rise impact across the Group.

Finally, to help you with the impact of the Italian mortgage portfolio and particularly, the modelling of Head Office, I'll just remind you of the following. We expect a loss on sale from the performing Italian mortgage book sale of circa £225 million and for that to be negative income in Q2. The P&L impact of the foregone business is relatively immaterial, but it was marginally loss making in Q1. The German consumer finance business delivered £87 million of income in Q1, largely in NII. And the business was marginally profitable after factoring in costs and impairment. We would expect negligible P&L impact from the sale when it materialises, given that the majority of the 50 basis points that we've called out in terms of inorganic actions actually relate to the Italian mortgage portfolio.

So in summary, Q1 represented steady progress against a three year plan which we laid out exactly 12 weeks ago today. We're focused on disciplined execution over the remaining 11 quarters and beyond. And with that, I will turn to you for questions. Let's have an open discussion. Can you please introduce yourself because the meeting is being transcribed. So I'm going to go the opposite way around. Normally I go clockwise but I'm going to go anti-clockwise today. So, Guy, go ahead.

Guy Stebbings, BNP Paribas Exane

Thank you very much, Guy Stebbings from BNP Paribus Exane. Couple of questions on the Investment Bank. First one, on FRTB, and really I'm thinking about the US if it doesn't get implemented with Basel 4. If the PRA responds by delaying areas which you might see as kind of anti-competitive for UK bank institutions, how would you respond? I imagine that's a conversation you must have discussed. I'm thinking about it in the sense of as shareholders, should they expect you to target lower capital in the Investment Bank as a consequence of that? So less than flat RWAs vs percent of the Group, or would it just be redeployed into other areas in that scenario?

And then the second question on the Investment Bank, which I pushed on a little bit on the [Q1 results] call, you didn't really want to say when exactly you'd expect to see market share gain really start to come through in the business. I think it'd be really helpful for us to understand at what point should we start to see some element of moment in that franchise, or to put another way, at what point would you start to question the plan? Because after 2, 3, 4 quarters of not showing market share gain, something needs to change.

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Anna Cross

Thank you Guy. So on the first one, difficult to answer that fully at this point in time because obviously we don't have final US rules, we don't really even have the final UK rules, although we should expect to have those relatively soon. So that in mind we continue to guide to the [lower end of] 5-10% [of Group RWA inflation from regulatory change]. I guess the answer to your question depends on how material any changes were and if indeed they occur. So anything I said at this point would be just complete speculation. What we are focused on is holding RWAs within that business flat, ensuring that it becomes more capital efficient. That's a plan irrespective of where the regulation goes. And we'll update you as soon as we have clearer plans.

In terms of market share gains, I'd contrast Global Markets with Banking. So in Banking, we get near term, almost real time, market share data. And we made good progress actually between Q4 and Q1 and I think we called that out in the slideware. So you can see that we've made some progress, maybe not as much as we want to make. We said that there are areas in Banking where we can do better. We feel like we can monetise more of the recovery in DCM, for example. But we did see our share revert back to I think [4.6%] in that business, which is a pretty strong result.

In Markets, it's a little bit more difficult to track because obviously you get the market shares much after the event. And we want to be able to look at those market shares in some detail as published by Coalition because there's some markets we're in and some that we're not. We'll report along the way with those. But what we are looking at is, are we meeting our own expectations? So, relative to the race that we wanted to run, are we meeting our own expectations in those three focus businesses – in securitised products, in equity derivatives and indeed in European rates. And really we are seeing progress in the first two of those. We feel like we've got more to do in European rates, but the first quarter was a more difficult quarter, macro wise, across the street. So our feeling is we've got more to do there, but it'll take a while for the market shares to confirm that. But you should expect us to talk to you about market shares over time, as well as how we're feeling relative to our own internal plans.

Ed Firth, KBW

Ed Firth from KBW. I'm just reading quite a lot about synthetic risk transfer products at the moment, and I noticed that you've done a lot of that in the Corporate Bank and I suspect planning to do quite a lot of it in the US as well around credit cards. I'd just be really interested to hear your observations on that market. Who's taking the risk? Is this something we should be expecting to be a 5, 10 year thing where significant elements of revenue goes out of the sector to the non-banking sector. Who's taking the risk? Your buyers and sellers or just sellers? I don't really know too much about the market, so it'd be really interesting to hear your observations on how that market works.

Anna Cross

Yeah, sure. Well I'll start, Dan may have things that he wants to add as we go. We've been running a program in our Corporate Bank for some time. It fulfils two things really for us there. One is capital efficiency and effectiveness, and the second is the ability to transfer risk outside of the bank. Of course, those two things are linked, but the second also helps us with impairment, and really allows us, or has afforded us considerable impairment protection over the last few years. That's the same as a stress test. And, the amount of risk that we transfer varies by sector. So we think about it in those risk terms as we take the decisions. The holders of those products typically tend to be asset managers and pension funds. We've seen steady demand over the years and it's now quite an established program for us. Probably less so for our UK peers, but for us in Corporate it's a way of doing business. And we do it on both sides of Corporate as you now see it. So you see it in the International Corporate Bank and you also see it in our UK Corporate Bank. So it's covering both sides. In US Cards it's slightly different, slightly more challenging to pursue those transactions, particularly after the financial crisis, because what you've got is a product that's a bit more tidal. So you've got balances that change through time. So the transaction that we did with Blackstone was very innovative. It took us about a year to deploy. It's very similar in its nature in that you give up some economics.

So that particular one, the way it works is we derecognise the asset both from the balance sheet and in RWA terms. We give away the net interest income, but we receive a servicing income instead. So it is RoTE

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accretive. You wouldn't want to do it for all of your book, but we did talk about on the Investor Day our ability to do more of that on a sort of forward flow arrangement as we continue to grow the US cards book. That was, as you say, our first toe in the water in the US. As you can imagine we've had more interest since then in terms of investors like Blackstone and we'll continue to pursue those.

Dan Fairclough, Group Treasurer

We get a lot of comments from, or questions from the debt investors, about how deep is that market, and we've obviously been in it for quite some time. It feels like the depth is very significant and it's actually getting deeper. The pricing is actually really competitive given the amount of new interest of investors. So, as Anna said, it's a very useful risk management tool for us.

Ed Firth

And how does it compare and contrast to securitisation? What is sort of economically different for you?

Dan Fairclough

So, synthetic risk transfer is like a securitisation structure. But if you like, you are buying protection on the very bottom bit of the risk. So it uses securitisation techniques, but it's really buying protection on the riskiest piece. And the economics for us per unit of RWA is quite compelling versus the opportunities in the business.

Jordan Bartland, Mediobanca

Jordan Bartland from Mediobanca. I was wondering how you're trying to pursue an accelerated growth with the consumer book, both in USCB and then also in BUK as well, given what you've been saying in terms of a very fast pace of repayments and prudence element to that. But is there any way beyond the inorganic, so Tesco obviously is going to help, but purely on an organic basis, how might you accelerate growth within the UK consumer book? And then maybe on the USCB side as well. Particularly when you've got a transaction like Blackstone, if that is being moved off balance sheet, how do you progress towards that 40 billion as well?

Anna Cross

Okay. So they're quite different businesses and quite different strategies. So let me take them separately. So the US Card book is a partner business. So what we're doing is we're partnering with fundamentally investment banking clients, but not always, and offering consumer products to their clients. So the way we grow that business is both by acquiring more clients through those partners and also by starting to work with new partners. Over the period of the plan we would expect to do both, specifically continue to grow with the partners that we have. We have got a couple of new partners which are starting from scratch, which are Breeze Airways and Xbox, and they're very early in their opportunity set now. But we'd also expect to acquire a partner of some size during that planning period. That's typically what we would expect over a two to three year period. As I indicated to Ed, I'd expect a balance between originating business and, using the kind of risk transfer that we've talked about. So we do expect to grow our balances probably to around 40 billion over the period. But we will also pursue risk transfer and what it really allows us to do is grow that business, fulfil our ambitions and those of our partners, but it's a very capital intensive business, so it just allows us to balance that growth and indeed capital intensity.

In the UK, it's quite different because clearly we have more products across the range for us to pursue. Particularly in consumer finance, we're very focused on unsecured lending, and in unsecured lending, by our own plan post Brexit and also through Covid, we clearly lost a lot of market share within unsecured lending and UK cards in particular. So what we're talking about is regaining that share. It's a market we know very well and we've made very good progress actually in terms of getting back to a very strong market share and acquisition. So typically over the last six or so months, we've been either number one or number two in the acquisition of cards in the UK. That takes some time to flow into the balance sheet, but it's like a pipeline that we can watch. We know that if we bring it in here, it takes a certain period of time to flow through. Smaller in quantum, but similar in nature, if you like, is personal lending. We have been acquiring unsecured lending loans through our BUK platform, that's been very successful for us, but we're still seeing progress. And of course when we purchase Tesco in the fourth quarter, we don't intend to

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purchase and then hold that. We would expect to then grow from there, utilising that brand and really expanding our relationship with assessed customers that look very much like the ones that we have already. Elsewhere in consumer finance in mortgages, what we're really focused on is not just the remortgage and lower loan to value business that we know very well and we perform extremely well in, but actually utilising the capability that we bought with Kensington [Mortgages] to be able to access more complex incomes, higher loan to value business. We took a higher share of higher loan to value in the first quarter than we would ordinarily do. So I think we're seeing good early signs and essentially what we're doing is either using capability that we already have or capability that we've bought over the last couple of years.

Jordan Bartland

On the mortgage side, you prioritised the higher loan to value mortgage space. Would you still be interested in growing the mainstream type mortgage business, maybe through inorganics or other opportunities that present themself in the market?

Anna Cross

I think that the point to note on high loan to value is that it's a relative increase. You would still expect a vast majority of what we do to be in the more general space. We would always do that. That's where the majority of the market is. It's also really important for us to be mindful of the risk mix that we take through time. So we've increased our appetite for that high value lending because we have the capability to do so, but it will still be a smaller part of our lending. In terms of inorganic opportunities, well clearly they come along over time. The way we think about them is that we would perhaps look to do them in our higher returning areas, but only if they were sufficiently small not to distract us either operationally or distract us from our distribution plans. They remain our priorities, as I said, very committed to our targets in terms of shareholders distribution. This plan requires very disciplined execution, so we don't want to distract ourselves operationally.

Ben Toms, RBC

Morning, it's Ben Toms from RBC. I was wondering firstly, can you just comment maybe on the mortgage and deposit trend that you're seeing so far in Q2. I know that swap rates have gone up a bit since Q1, and I wonder if that [reduces] mortgages going into the pipeline and whether you still see stable deposit levels.

Secondly on impairments, I think you talked initially about the reserve build being higher in half one versus half two, but in Q1 you printed 51 basis points, at the bottom end of your guidance range. Does that imply bigger numbers in Q2 or does it imply that you are kind of tracking below guidance for the FY?

Anna Cross

Okay, thanks Ben. So, I won't make a Q2 trading statement obviously, but you guys observe the market also. We have seen an increase in swap rates in the second quarter, pricing has followed that, but consumer demand appears to be pretty robust. As you will note from industry statistics, application volumes across the industry remain pretty strong. Similarly, in deposits, you'll note from deposit trends more broadly, and I know the Bank of England data is lagged, but we are seeing the sort of stability that we expected to see. So panning out as anticipated.

For loan loss rate, the guidance that we gave you was a through the cycle guidance. So it's a multi-year, all weather guidance really. So I'm not going to specifically comment on 2024. The guidance that we gave you specifically about the first half versus the second half though was relating to US cards. So in US cards, obviously we're at a highly elevated position at the moment because we are building a reserve, and really as we see that reserve built to the levels that we need to see, given our delinquency expectations, we would expect to see the charge fall off in the second half. We continue to expect to see that. So second half charge smaller than first half. Totality, smaller than in 2023. On the other side of the pond, in the UK, we are starting to grow our lending. So, difficult to pinpoint exact trends by business at this point in time, but you would expect as our targets would indicate, that over time, the loan loss rate in BUK will start to rise. It was 11 basis points in the first quarter, it's been at that sort of level for a long time. But as we start to grow, and particularly on-board Tesco, you're going to see that start to move towards the longer term guidance we've given you of 35 basis points. So it's to take into account that as well.

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Rohith Chandra Rajan, Bank of America

Morning, Rohith Chandra Rajan, Bank of America. I've got a couple as well please. First one, just coming back to US cards. So think we have the District Court of Texas applying an injunction on late payment fees. I was just wondering if you have any initial thoughts on how that might impact either the amount, or the timing. And if actually in the end it ends up being scrapped, would that change your plans to target high yielding, loan growth in US cards business?

That was the first one and the second one just on UK M&A. You've obviously done some smaller bolt on acquisitions. There's been, I guess, a degree of re-utilisation in the medium sized banking space in the UK. And depending on how things pan out, there may be another bank that's potentially put up for sale. I was just wondering how that might fit with your views on distracting you from the plan. And more broadly actually, if you think there's an impediment to UK clearing banks making those sorts of acquisitions, either from a competitive, a political or regulatory perspective.

Anna Cross

Okay, so let me take the first one, so just for everyone's benefit, on the 10th of May, we saw the court in Texas put an injunction against the late fee legislation coming through. In our plans that we set out on the 20th February Rohith, what we did was we assumed that those plans would take effect in May. Now I guess two things might happen. They might be moderated or, we may see some delay. It's difficult to determine exactly what's going to happen, but it's clearly not going to be implemented in the timescale [assumed in the plan]. So, that will probably in part delay some of the industry's response to it. We've seen some changing in pricing in response, but we probably need to see that legislation progress before we see that happen more fully. Our objective, however, is not directly linked to that legislation. That legislation's probably less impactful for us than it is for others, in part because of the FICO scores that we have, but also because with some of our partners, we're able to share the economics of that legislative change. Our objective more here is to diversify the business actually, because by addressing travel and airlines and entertainment in particular, we were only really looking at half of the addressable partner market in the US. And so by opening up to retail it offers the opportunity to grow with new partners with a slightly higher margin. We don't expect that to impact our risk significantly because at the same time we've got legacy books rolling off. So it doesn't really change our plans Rohith, it might change the economics slightly in the short term, but we'll wait and see what happens.

On your second question. You're right, we've do a few small bolt on acquisitions. We've done those with two things in mind, either to buy a capability that we don't have. Kensington [Mortgages] is a very good example. We didn't have that risk capability in mortgages. And so rather than build it over a period of time and build up that risk data, we obviously sought to buy it. And you might recall that when we bought Kensington [Mortgages], actually we bought very few balances. It was more about the capability, the people, the platform. The other thing that we would look at would be where it allows us to accelerate a plan we otherwise already have. Tesco is a really good example of that. We had the question before, in terms of the growth of unsecured lending. So Tesco, because it's such a narrow strip of business, really unsecured lending, both loans and cards, it really fulfilled that desire to accelerate, obviously, again, with some really good open market capability, but really firmly fitted in that box.

We would only look at things if they did either one of those two things or they related to BUK, UK Corporate or Private Banking and Wealth. So our three high returning businesses where we have the £30 billion RWA objective. That's where we would look. But really important is that it doesn't disrupt either our distribution plans or indeed our operational plans. Now, some of the businesses that have come to market would be big enough to be more operationally disruptive as an integration matter, would also have factors within them, which are probably less attractive to us, for example, branches, because that would require a branch integration, which is obviously more difficult. So, we're being quite focused in the way that we look at things. Obviously there's a lot of change going on in the market, that will change the competitive dynamic, so we're very mindful and watchful of that. But our objectives around acquisitions are really quite specific.

Rohith Chandra Rajan

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From your perspective, do you think there's anything within the kind of setup in the UK that precludes the clearing banks from making those sorts of acquisitions? So it's not specifically about Barclays, but generally there seems to be, I guess, political adversity to bigger banks acquiring medium size banks.

Anna Cross

It's difficult to say because obviously each case would be regarded on its specific individual elements. But generally, if we were considering those two things sort of more holistically across the market. Firstly, you have competition considerations. So, would the combination of those two banks, if it were two banks, have any kind of competition requirements. You might expect so, and that depends how deep those concerns were and that can be quite a long journey. On the other hand, the complexity of regulation, both prudential regulation and indeed consumer regulation. I mean, we disclosed to you on the 20th of February that we spend about £1 billion pounds a year on going through regulatory readiness. So there is a scale advantage in going through regulatory change. That is certainly true. So I think that's also a factor in what's happening more holistically across the market. So we sort of observe those two trends, but I think it would be very specific depending on the nature, of the individual institutions, Rohith.

Joe Dickerson, Jefferies

Hi, thank you, Joe Dickerson from Jefferies. Two questions. First on the US consumer, do you see longer run strategic expansion into adjacent areas of lending and expansion into more physical touch points for deposit gathering? So what's the, not the next 18 months or so, but what's the longer run strategy in the US? Is that really viable as a business totally focused on cards or would you be able to extend into adjacent channels? And then secondly, maybe I didn't hear the answer on Guy's question, but in terms of the PRA and the Basel rules with the President of France yesterday talking about this, would you think that the PRA would be alone, if you followed the US in terms of delaying the [implementation]. What's the thought process on that, more in particularly areas like FRTB and so forth, which simply another year allows further mitigation?

Anna Cross

Just on the first one, it's called the US Consumer Bank, but don't assume that its product footprint changes markedly from where it is and the US Consumer Bank reflects the fact that it's both cards and deposit gathering. It doesn't indicate a significant ambition to sort of enter retail banking more widely in the US. And specifically on your point on physical touchpoints, you're right, it's quite different in the US. In the US people are opening branches, in the UK it's quite different. The economics are different. But the way we feel about it is we want to continue to improve the digital platform that we have for deposit gathering. We don't have any plans to open physical institutions to gather deposits in the US. We do it very effectively. We have, I guess, a group of consumers who really use us as an ability to diversify their deposits across a number of US institutions. And we see that because well over 95% of them I think are actually insured deposits. So, we're seeing that kind of behaviour. Obviously we can do more, that's part of our strategic objectives in US cards to have a higher proportion of direct to customer funding. But we will do that digitally. And really we do think that we can compete with that kind of footprint because what we've really got in mind here is a very specialist, very focused, business. Focused on partners, and our relationships with those partners. So, we believe that's what we're good at, what we've got experience in and therefore that's what we'll stick to.

On your second question on Basel [3.1] and FRTB. There's clearly a lot of commentary there and we hear it as well, but until we have a different regulatory pronouncement one way or another, it's really difficult for us to say what we believe will happen. We think it's important to have strong regulation. We think some geographical alignment around that regulation is really important, but until we see final rules, it's really difficult to comment further.

Chris Hallam, Goldman Sachs

Chris Hallam from Goldman Sachs. So, it felt like the comments on April 1st salary inflation may be a bit of a nudge review in terms of housekeeping on costs for Q2, is there anything really changing on marginal costs or it's really just actually the annualisation effecting new salaries? Anything we're seeing in terms of hiring? Anything becoming marginally more expensive than you would've anticipated in the plan?

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And then secondly, a little bit more broadly, and it's bit of a follow up to some of the earlier questions, the big US banks are clearly becoming quite capital constrained. Both by the uncertainty that you referenced and also the move to a more onerous sort of GSIB scoring regime. That's sort of narrowing down their potential to grow some business areas and markets. Is that creating opportunities for you, sort of in addition to the plan that you laid out? Or is that all sort of embedded in how you think about the market shares in target areas?

Anna Cross

Both good questions. Think of it as a nudge or a reminder, just that there's a natural rhythm to our cost base, nothing more than that. And just that our structural cost actions will be a bit lumpy through the year. We've announced some in relation to the Investment Bank, so you should expect those to manifest themselves. But they're all wrapped up in the guidance that we gave you. They were all in plan. They were part of our objective to continue to grow the Investment Bank and make it more efficient and effective over time. So they were very much included within our c.63% guidance for the year. So, that’s sort of for you to bear in mind as you're thinking about Q2.

On your point about US banks and relative competitiveness. I think I'd say two things, it's difficult for us to apply a specific amount to the opportunity that may or may not be there as you describe it. But we do think about two different things. The first is we are clearly building capability and as we've built that capability, so we have taken share and we've taken share from both European and US banks over time, and it's easy to see in areas like Prime where we were number eight and we're now number five, we continue to do so. So, we think largely this comes from a build out of capability. You have to be good to get the business and you have to have the people, you have to have the technology, which is why we've been investing in those things.

The other point I would make though, is for many of our clients, they do want a degree of diversification. And a diversification outside of the larger US banks is quite often what we hear. So, we do believe that we can be extremely successful by being number six, but being very focused in what we do. And that's been a large part of our strategy. So I think it's more of a reflection of what we're doing already, rather than any new specific opportunity is the way I would think about it.

Alvaro Serrano, Morgan Stanley

Good morning, a couple of questions on the Investment Bank and costs. In Q1, I think Venkat mentioned that the reason European rates and DCM had not done better is the fact that you had more junior roles, which was the reason why you weren’t growing more. Do you need that to sort of bounce back so to say or do better for the rest of the year? How important is that to hit your 10% RoTE target? And I was just thinking that to the comment that you said about seasonality this year versus last year. But I'm also thinking if you've done quite a bit of restructuring then the headlines you referred to then would be disrupted. So maybe some comments on that please.

And second on cost, you were obviously very good [in Q1]. You were rewarded for the cost discipline. Based on your comments that you've made, just referred to, is there room to do even better on cost given what you just said around April and the lumpiness maybe in Q2. Could you do better and maybe you can touch more on the comp ratio you had in Q1? Or is there the conception that there’s room to accelerate efficiencies even more?

Anna Cross

So, our comments on European rates and DCM. I'll just distinguish those two. So, we have a longer term plan in rates, which is, we've invested a lot in technology. We're investing in talent. We're a large way through that talent investment, but not complete. So, we would expect to see continued progress in that business. It remains one of our focus areas. So probably did less well than we would've hoped that it would. On DCM actually we saw quite a strong rebound in market share. Our reflections there are more just because of the data we see as we sort of look at those individual transactions. Do we think we could have done better by having better economics in each one of those transactions? Yes, we do. So it's not that we're not keeping pace with our expectations, more we are being challenging of ourselves and how we perform. So I distinguish those two slightly. In terms of the year more broadly, as we said on the [Q1 results] call, we are where we expect it to be, even within Markets, obviously we saw a very strong result

within Equities. FICC was weaker. So the IB and the broader business performed as we expected. And the plan that we have is clearly about growing revenues, but it's also about the allocation of capital and it's also around costs.

So we are where we expect it to be, and we have a number of levers that we can pull in order to influence the results of the business, which takes me to your second question really about costs. So on an underlying basis, we expect to be driving exactly the same kind of cost discipline. And you'll have noted that I said I would like to be able to stand up and say we've meaningfully taken another chunk out of that 1 billion pound target. That is our objective for the second quarter and continue that momentum. All of the actions that we are taking in the second quarter are reflective of the plan that we already had. They are not a reaction to particular short term trading points. They are really part of our objective to grow the Investment Bank whilst holding its costs and its RWAs broadly stable over time. So they're essentially us restructuring, looking at our management layers, how we run those businesses end to end. That's really how we are thinking about it. Of course, we do have levers. We can slow down investment, we can accelerate it depending on what's happening. Comp is also a lever. We don't disclose our comp ratio in the first quarter, but what we do is we accrue comp in line with the returns over the year. So you'd expect us to accrue more comp in the first quarter than we would in subsequent quarters just because of the seasonality of the Investment Banking business.

Sanjena Dadawala, UBS

Good morning. Sanjena Dadawala from UBS. A couple of questions please. And the first one I think, we already touched upon a bit, but what's the realistic reduction in risk weighting that can be achieved in the US card business from 160% and how?

And the second one, is how you think about the benefit to capital levels from an RWA intensive business like cards, alongside the leverage heavy Investment Bank?

Anna Cross

On the first one, we talked a bit about this on the 20th of February. We expect to get to a position of around 145% risk weighting. It's 160% on implementation, then we expect it to fall through time. And that's really through two things. It's partly through the kind of transactions that we've talked about. To give you an indication, we expect to grow our assets by about $8 billion, but I think only £4 billion of real growth in RWA. So that gives you an idea of how much of that we expect to do. The other thing though is also just to think about the nature of those capital models. What those advanced models do is they ascribe a risk behaviour that is in alignment with your worst period in history. So if I have someone like Marina in my US cards portfolio, I'm going to assume that Marina in a stress performs like someone like her did in the financial crisis. So the same drawdown, the same default rate. So, it's quite pro-cyclical. So what that means is, in the current environment, as you're seeing delinquencies rise in the US it does have a capital effect. And as we expect to see, delinquencies normalise and impairments normalise, so you will see that capital weighting drawback. So there's a natural impact in the model itself. And then there's the impact of the capital transactions.

And your second question, let me explore it with you a little bit. So you're asking how we think about balancing capital intensity with leverage intensity?

Sanjena Dadawala

Like when you think about capital allocation decisions, how do you think about benefits and costs?

Anna Cross

Okay. We were quite clear on the 20th of February, the way we will allocate capital from here is disproportionately to the higher returning businesses that we have. So BUK, PBWM and our UK Corporate business. They are the businesses where we feel we have the opportunity to grow and where we will generate very high returns from those businesses. Because as we allocate capital to the businesses, we are thinking about the capital hierarchy that we set out on the same day, which is number one, achieving our regulatory goals and compliance and operating within the target range of 13 to 14%. Number two, distributing to our shareholders. And number three, then investing in the businesses, which is why we will

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skew additional capital into those businesses. Now, in terms of the areas of the business which are more capital intensive and have lower returns like US cards for example, that's why we're working very hard on improving the margin of that business, its efficiency ratio and driving capital efficiency through the kind of programs that we discussed at the outset with Ed. But beyond the regulatory growth, you can see there's only about £4 billion of additional RWAs going into that.

In terms of the IB overall, we would expect to reallocate capital within the IB actually away from Debt Capital Markets towards Markets, and particularly our financing business, which has a high RoTE because it's RWA efficient, but it is heavy on leverage. I'll come back to that and I might ask Dan to comment about how we think about that business. But also into our International Corporate Banking business, which also sits within the IB.

So I think of it as almost three pieces. You've got new capital going to high returning UK businesses, you've got US cards fulfilling an execution intensive program, actually across a number of layers to improve its returns. And then within the IB you've got an optimisation, which will include the absorption of Basel, but maybe let's just talk with Dan about Financing and how we think about that in the context of raising Tier 1 [Capital].

Dan Fairclough

Leverage is very much a backstop metric for us, but clearly it is important. Overall we'll look to manage the business to a RoTE target, and obviously that's a focus on RWAs, but there are particular businesses that aren't very heavy leverage and low RWAs, so they're going to screen very well on a RoTE perspective, but we need to make sure we've got the right discipline in those businesses. So in those areas we'll focus in particular on return over a leveraged balance sheet. It means that we are just getting the best return we possibly can for the leverage balance sheet that we deploy. And we particularly think about that in the context of the cost of leverage, and AT1 is obviously a pretty good barometer of the marginal cost. We'll be very disciplined where we're deploying into liquid areas of our balance sheet, that the returns on that exceed the cost of AT1, which is a marginal cost. So I think your answer is really, although we are very focused on RoTE, there will be a range of different sub return measures that we'll use and that they'll be particular to the business profile.

Robin Down, HSBC

Morning, Rob Down from HSBC. It wouldn't be a bank meeting without someone asking about the structural hedge. We're roughly three months on from the Investor Day, give or take. You talked about deposit stability. Can I ask you again about the reinvestment of the maturity over the next three years, whether or not you are taking a slightly more upbeat view of that, in terms of that stability of whether perhaps this flags risk to the £2 billion kind of income target there?

And the second question, I think we've all kind of been sniffing around this on the regulatory side. I think we've all spoken to regulators, the FCA, and the PRA, we've had some speeches from Macron a couple of weeks ago. Politicians are pushing back on regulations. We've had [inaudible] talking about how he doesn't like all this private credit market developing, and maybe it's because regulations are too harsh on banks. I'm guessing that the US are going to water down Basel 3.1 in August. So have we reached peak regulation? I am trying to get a sense of your conversations with regulations, whether or not you are hopeful. I know you want to wait for things to be published, but I would like to know whether or not you are hopeful that we've reached peak regulation, and maybe we can see some softening over the next two or three years.

Anna Cross

Okay, thank you for those, Rob. So let me take the structural hedge. Dan, you may want to comment also. So, we're obviously been observing the macro trends, both in terms of deposits and swap rates. But what we try to do in February is set out clear targets, our clear objectives, what's important to us, to allow them to be tracked. Our actual experience is that, swap rates will move around. They moved around significantly. So what we are not going to do is mark to market those targets on a quarterly basis. So I just reiterate what we previously said. We've got about £170 billion maturing over the next three years, we expect to reinvest about three quarters of that. We gave you an indication that if we were reinvesting that at about 3.5%, then that would get you to around £2 billion compounded.

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What we are much more focused on, and we will report to you on, is what we showed you on the day on Q1, which is with another quarter gone, how much more have we locked in. And actually in the first quarter, that locked in portion from 24 to 26 had gone from I think £8.6 to £9.3 [billion]. So with every passing quarter we get more certainty. And, that's what we'll be focused on, is trying to interpret it for you and giving you the mechanisms for you to understand those sensitivities. That's why we set out those parameters for you. But actually, locking in on a new target every time the swap rates move would be very difficult for us all I suspect. Dan anything you'd like to add?

Dan Fairclough

It's 11 weeks since the investor update. So if I think about this in marathon terms, we're probably at the first mile, so I think we just need to sort of let this flow through over time.

Robin Down

I ask the question slightly differently then. Which is it that gets the reinvestment rate down to sort of three quarters. You do need to see an ongoing churn within the deposit base. You're not signalling to us that maybe you feel you might be a bit over hedged and that even without that deposit churn, you would expect to see the hedge falling over the next three years.

Anna Cross

No, we're just reflective of what we think the deposit trends would be, but also the sort of broader macro piece of the money supply is falling.

And, on your second question again, I'm not going to speculate on regulation. I think what we're looking forward to is a position where we have Basel 3.1 behind us. We have certainty, we can implement that. I think that's important for banks, for investors and actually for our clients as well. So, we want to get to a position where there's stability of regulation and that's very clear. There have always been some international differences and what we've seen over time is that international banks operate across jurisdictions very effectively with different regulations. So I wouldn't expect it to be any different, same is true of consumer regulation. Actually getting to the point of the consumer duty being implemented in the UK is a good place for us to be at and hopefully we'll now see some stability from here.

Robert Sage, Peel Hunt

Hi, it's Rob Sage from Peel Hunt. Just a quick question really on SME, which I think you said in your Strategy Day you are hoping to grow from the rather more muscular approach. And I was wondering if you could put a few more details in terms of what exactly is changing. Also, with respect to your commentary around how you allocate capital, is obviously that you want to be allocating capital to your high return businesses. How does SME sit within this hierarchy? Is it one of those where you'd really like to allocate more capital or is it sort of one of those where actually there are several opportunities elsewhere?

Anna Cross

Thank you. So, I think there's a few things happening in SME that are actually not that different in spirit to the conversation we might have about UK mid-corporates. The first is that our appetite for lending certainly reduced, particularly post Brexit. We saw further contraction of that during Covid. We also have seen, if you like, a considerable accumulation of liquidity, whether that be through Government lending or elsewhere in both SME and mid-corp. So we definitely have the desire, to lend across both of those. SME is very much part of the higher returning business suite that we see. So we would want to allocate capital to it. In its absolute terms, probably a smaller opportunity than some of the others, just because of the nature of our SME book. It is quite cash rich. So we do think there are opportunities there and we do want to make traction, but it's not the largest part of our plan. Our loan to deposit ratio in that business is extremely low. So they are customers that we know well. We are working with partners to offer them not just traditional lending, but also give them some access to asset financing through partners, so broadening our expertise there but not having to build that ourselves. So we are doing that kind of thing. But really focused on trying to help them grow. In part that will relate to, the continued recovery of the economy, expectations of growth and GDP more broadly. So it's partly our own risk appetite. It's partly our own capability to lend digitally and more efficiently than we currently do. So we know we've got things

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to do in our process, but I think there is also a piece here about demand more broadly, their comfort and confidence in the economy. And indeed the fact that many of them are enjoying high levels of liquidity.

Raul Sinha, JP Morgan

Wouldn't be a bank meeting if we didn't talk about NIM. So sorry to come back to this just when you stopped guiding on the UK NIM, but looking at the trends in the quarter, it's hard not to get to the conclusion that it's going to be up again in Q2. So I was just wondering if you give us maybe reminders of how the product margin headwinds move through the quarters. Is there any sort of profile to the shape of the margin pressure, especially in mortgages.

And then I guess related to some of the discussions we've been having on the deposit side, it seems to be very benign, even [inaudible] cut rates and competition is continuing to stay quite benign. So just wondering if you think it might come back at some point when these term deposits that have been written at high yields are maturing and money starts moving around, is that an expectation? In terms of that £6.1 billion, I guess, overall NII number and I've got another one on UK corporate.

Anna Cross

So we are not guiding to NIM, but let's just talk about the sort of profitability drivers within the business. So if I reflect back on 2023, we saw considerable downward pressure coming from deposits and we saw considerable downward pressure coming from mortgages. Actually, what we're seeing is that mortgage churn impact really be alleviated. That's what we expected to see, simply because the rates on maturing or the margins on maturing business are now lower than they were for maturing business in 2023. So as it refinances, you get less of a portfolio effect. That's what we expect to see. That's what we're observing. And you should continue to expect to see that blow out through 2024.

On deposits we have seen continued stabilisation in pricing. It was quite competitive as we went through the ISA season. It's dropped back a little bit. But there are still some competitive rates out there, albeit, probably more so from the challenger bank set. But our own rates of fixed term deposits around 4.6, 4.7% remain pretty high. And really what we're trying to do here, I would say, is have a compelling range and stay in the market consistently rather than coming in and out. We find that much more effective in managing both our customer franchise, but also the stability of our deposits. And we think that's important. As to the broader trend, whether this is an expectation of rates starting to fall I don't know. We keenly observe it. I think what we saw last year was a buildup of fixed term deposits pretty slowly over the year. So the maturity profiles of those will be staggered over time and hopefully that will alleviate some of the impacts that you're talking about.

There are mathematical impacts on NIM to be mindful of as well. Obviously the denominator being the asset balance. Clearly we are not seeing significant changes in assets at the moment. We might expect to over time, but as we do so, we would expect those to be a slightly higher margin. So growing unsecured lending for example. And then of course there's the structural hedge, which continues to deliver a strong result quarter on quarter. So I would say some of the pressures that you saw last year, certainly alleviated, although there will still be some deposit migration as we go forward from here, but it's certainly at lower levels than it was. Mortgages lower, structural hedges is more of a support.

Raul Sinha

I guess, and there's another, we can leave the NIM and come back to that in the next quarter, but I have been actually looking at the UK Corporate Bank ahead of your deep dive. It's quite interesting to see the NII does move around quite a bit, in the last three quarters. If you look at the profile of NII in the Corporate Bank, it's been quite weak in Q4 and it rebounded in Q1. I can't quite understand why that might be the case. So I was wondering if you might be able to help us.

And also related to that, maybe you want to address this there, but LDR is 31% in the Corporate Bank. So, is that going to stay like this or is that changing over time with the strategy?

Anna Cross

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Yeah, the Corporate Bank NII has moved around over the last few quarters. It has been subject to a few things in there. The first is obviously NIBCA migration. As you can imagine that has been more significant in the Corporate Bank than it has been in retail. Again, however, like retail, it started to stabilise particularly in our mid -corp business. So I would expect that to be a little bit more stable from here. I think we started to roll the hedge again within our corporate space because we paused that last year to give us some headroom.

Between the beginning of last year and the end of the year, if you just think about the construct of the UK Corporate Bank, it is very much deposit heavy, which means it does attract some income from the liquidity pool. And on the liquidity pool, of our £320 billion in the liquidity pool, a little less than 20% of it is invested. The income on those investments have changed over the last year because if you think about the returns on either inflation linked positions or indeed interest-bearing positions they have moved, that would impact the deposit heavy business more significantly. Then if you get into Q1, you have another effect. You have a pickup in transactional activity just as a seasonal matter, and actually the liquidity pool income recovered in Q1 versus Q4. So there's quite a few things in there because it's a smaller business with a significant impact from that pool, it is a little bit more volatile.

You're right to pull out the LDR, it's very low. It's certainly lower than our competitors. And hopefully you'll hear more about this on the 18th of June. This is one of our specific objectives. We think that really through our own risk appetite, and indeed our focus on this business, that LDR is a lot lower than it could and should be. We already have those businesses. It's almost the opposite of our banking discussion. We have the cash relationship, very frequently we also have the merchant acquiring relationship. So actually extending into lending is an easier journey for us to do. So we're working very much on that, but you should expect us to still be disciplined about risks, still being thoughtful about sector focus, still being thoughtful about SRT, but we do think that it's a big opportunity for us, which is why it's part of our £30 billion [RWA growth objective]. I think it will take longer to come through. You'll see results in retail before you see them in corporate.

But, time in mind, that was a marvellous advert for our Corporate Banking deep dive, which I hope you'll be able to attend on the 18th of June. Matt Hammerstein will be taking you through the Corporate Bank and you'll have the opportunity to listen to him and also ask questions. So thank you for your time today. I hope you found the session useful. It's disturbingly a short period of time until we actually hit Q2, so I'm sure I'll see you all soon, not least on the 18th of June. But thank you for coming.

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