

Barclays PLC Q3 2024 Results**24 October 2024****Results call Q&A transcript (amended in places to improve accuracy and readability)****Jason Napier, UBS**

Good morning, Venkat. Good morning, Anna. Two questions on slide 16, please, which is the Barclays UK margin and NII walk. And just first I appreciate the reiteration of guidance around hedge tailwinds into next year. I noticed that the quarter-on-quarter tailwind there is down about a third and it looks to us like maturing swaps and incoming swaps should have been fairly stable, down about 30 basis-points each in the period. So I just wonder how you think about the sort of quarter-to-quarter volatility around this component of NII, I am trying to avoid a situation where we worry unduly about nearer-term dynamics from that?

And then secondly, on that same chart, it is quite surprising to see the product margin as a net positive. Can I just confirm, please, that includes what are the leads and lags on depository pricing? There's some feedback in the investment community that perhaps Barclays hadn't been able to cut deposit rates as others had done as rate cuts began. I just wonder whether you could talk about what you're seeing on deposit pass-throughs as rates start to decline, if I could confirm that I'm looking at the right block when I look to track that going forward. Thank you.

Anna Cross, Group Finance Director

Thanks Jason, and good morning. Thanks for the questions. I'll take both of those. So just looking at slide 16, I can see why you're asking the question. The structural hedge impact is lower than the previous quarter. Last quarter, the product dynamic was negative, now it's positive. So I'll pick those up in-turn. Last quarter, we did have a slightly higher swap rate, as you point out, but we also topped up the hedge a little bit, particularly around business banking. That's now obviously in the run-rate. So it's no longer causing that quarter-on-quarter impact. Sort of going-forward from here, we're going to continue to see momentum from the structural hedge. You can see that from the other disclosures that we've given you, for example, on page 10. So I still expect it to be a net tailwind overall to this business and really supporting the NII growth that we're seeing. So nothing more really than that.

On the product margin, you're right, that does include all product margins. So it's including assets and liabilities. I think important to point out that some of the drags that we've seen historically are no longer there. So you're no longer seeing that really significant deposit drag from migration coming through. Actually, our mortgage position is broadly neutral from a churn perspective now. So you're no longer seeing that. What you are seeing is some positive momentum from both mortgage and card margins, which is a little bit offset by deposit pricing, as you point out. But actually I'd expect given the regulatory lag that we have in deposit pricing for that lag impact to be more meaningful in the fourth-quarter. And so bit of a law of small numbers here because it is only a quarter-on-quarter movement and it is only £6m, but those are the things that I would call-out.

Jason Napier

Thanks very much.

Anna Cross

Okay. Perhaps we could go to the next question, please.

Benjamin Toms, RBC

Good morning. Thank you for taking my questions. The first one is, thank you for the new disclosure around the structural hedge income around how that should be allocated to the Group, that's a bit like Christmas come early. One of your peers this week implied they expect the structural hedge notional to be flattish from here. Based on your guidance in February and movements in the notional since year-end, I think you're actually expecting a 13% reduction in the notional from here. Do you really expect to see such a big reduction going forward given you mentioned just previously the stabilisation in deposits or can we assume that, that assumption is now somewhat stale?

And then secondly, just to chance my luck on 2025. One of your peers guided to a gradual increase in NIM in 2025 in the UK. Should we expect a similar trend at Barclays? Thank you.

Anna Cross

Good morning, Ben. Thank you. I'll take both of those. Yes, pleased to put that disclosure in on page 38, if you haven't seen it. We often talk about the structural hedge and the support that it gives to BUK, in absolute and percentage terms, that's where it is most meaningful, but it does provide support elsewhere in the Group, particularly through the equity structural hedge. So you'll see there perhaps surprising to many that it's providing some support into the IB, because we allocate that equity portion by RWAs. So hopefully, that's helpful.

For the structural hedge notional, I'm not going to give you specific guidance, Ben, but what I would say is we'd expect it to sort of trend broadly in-line with where the deposits are going. When we spoke in February, that was less guidance, more sort of a framework to help you model it as time goes on. So we talked about £170bn of maturing and rolling about three quarters of that, but that was designed really to give you the math that you could then update rather than a forecast itself. So clearly as we look at the moment, there are some positives in there, but we will continue to update you as we go through, but I wouldn't call-out anything more than we should expect it to move-in line with deposits.

On your second question, I'm not going to talk about NIM. NIM is going to move around quite a lot over the next few quarters. As you can imagine, we're about to onboard £8bn worth of unsecured lending. That's going to move the NIM materially. What I would really focus you on is actually the net interest income. So we've upgraded our net interest income for the Group and for BUK in the current year. Now we're expecting c.£6.5bn for the UK. And if I take you back to what we said in February, we said we expected mid-single-digit growth in NII in the UK [from 2023 to 2026]. We still expect that. And what's driving that? Well, clearly, we've got asset growth coming through and what was a drag coming from deposits we now see a stabilisation, and hopefully as deposits start to grow across the market, we would see the same. And whilst we've got some uncertainty coming through from rate changes, I would offset that with the kind of momentum that we've got from the structural hedge. So we are expecting NII to be higher in '25 and in '26 than it has been in '24. And obviously we would be putting Tesco on-top of that.

Okay. Thanks, Ben. Next question, please.

Chris Cant, Autonomous

So Head Office I wanted to ask about looking into '25, '26, could you give us some colour on what the sort of underlying group centre numbers look like after the various mortgage books have gone and the German card books have gone. I think this is a source of significant dispersion within consensus, how people are thinking about the underlying Head Office and it has been an area where historically consensus has got a little bit out of kilter with your own expectations. So any colour once the transactions you've currently got in the pipeline are done, what does that group centre income and cost run-rate look like? And I appreciate that there's still the payments business in there, which may or may not go at some point, but what's the go-to run-rate as things stand for the transactions once the transactions you've got in the train are done?

And then on BUK NII, just a point of clarification. So it's mid-single digit growth on the 2024 number excluding Tesco and then we put Tesco on top. So take essentially the £6.5m that you're now guiding, mid-single digit growth on that and then £400m on top is what you're saying for 2025?

Thank you.

Anna Cross

Thanks, Chris. Let me pick up both of those. So the first one, look, I appreciate Head Office has been a bit volatile in the current year, both because it's housing our inorganic activity and those businesses before they actually flow out. So just to remind you, there's no inorganic activity in the current quarter. You can also get some volatility in there from hedge accounting. And so we're seeing a bit of that in the quarter, but year-to-date, that is a zero number and we expect it to be timing only. It's a bit early to guide you to what that run-rate is Chris, but we will do that in time. Just to remind you, nothing in the current quarter and just appreciate it's very difficult to model at the moment. But once we get beyond that, we'll give you more guidance.

On the BUK NII, let me just clarify for you. So ex-Tesco, I expect some increase. The mid-single digit guidance that we gave you for BUK did include Tesco because that was from '23 to '26. So we included Tesco obviously in our RWA bridge to £30bn and it's included in the mid-single [digit guidance]. So I would say, overall, we're expecting some organic and Tesco on-top to that.

Chris Cant

Thank you.

Anna Cross

Yes, okay. Thank you. Next question, please.

Edward Firth, KBW

I had two questions. One was just on the BUK interest rate sensitivity. It's quite striking that you're not highlighting it at all as an impact this quarter. And I think you said it was minimal or marginal. I can't remember your exact words in terms of your sensitivity to rates falling going forward? And I'm just trying to understand why that is, is that just like a temporary thing and as the hedge rolls off, then you would expect some more sensitivity or is there something that you sort of structurally changed because obviously on the way up, we saw NII grow very strongly on the back of higher rates.

And then the other question was on the US and the margin there. I get your comments about you're still targeting greater than 12%. I think you said there was a lot of incentive programs or loyalty programs that you were running at the moment. And again, any help you could give us to understand from a business perspective how that works because obviously in the US, loyalty program is a huge part of the business, it's a huge part of attracting volumes and customers, etc. And I'm just trying to think what is it that you're expecting to change in the market more broadly or how is your offering going to change that's going to allow you to reduce those loyalty offerings, but still maintain momentum in the business. Thanks very much.

Anna Cross

Thanks, Ed. I will take both of those. And on the first one, we gave you some guidance on the interest rate sensitivity in the previous quarter and that really showed for a 25 basis-point parallel shift, it was £50m in the first year. And then what you saw was that build over time and the way I think about it, Ed, is in the first year, it's dominated by the lag effect. So the 60-day regulatory lag that we have, particularly in the UK. And then in the outer years, you see the impact of the hedge grinding lower in response to that parallel movement. So that's really what's going on there. If I go back to what I said in products and for that product margin on page 16, just to clarify, we've got two offsetting impacts in there. There is a negative movement from the delay in pricing or repricing the liabilities. But there is an offset which is coming through from our asset margins, which are expanding. Now you might expect that in a downward movement. Overall, we would expect that as the liability margins start to compress, you see asset margins widening out. And of course, we've got specific actions around things like high loan-to-value mortgages that are perhaps driving that a little bit faster. So it's not that it's not there, it's just that there are some offsets, and actually, I would expect a bit more of that lag just because of the way the months pan out in Q4.

So on your second question on US margin, yes, the NIM is clearly lower than it was at the beginning of the year and indeed last year. But our expectation is that this is still a greater than 12% NIM business and all of the actions that we are taking to underpin that are taking place. So in the current quarter and if you look sort of sequentially across the last few quarters, there's a few things going on. There's natural seasonality in this business. So you see more purchase activity, more borrowing activity as you go into the holiday season, which is much more seasonal in the US than it is in the UK. So you'll see that natural shape. The second thing is, remember, we did that risk transfer in Q1. What that meant was we swapped out NII for-fee income, but obviously it's [RoTE] accretive overall. So you see some movement in the geography of the P&L on the balance sheet. Then thirdly, as we've called out, there are a couple of things that we're just observing as a customer matter. Actually, I don't think they're unhelpful, but there are two. The first is that customers are managing their balance as well, they're repaying, perhaps a little bit faster than we expected. In the context of the broader discussions about the US economy, I don't think that's unhelpful, and we see the other side of it in positive impairment. So we're not uncomfortable with that. The second point is that customers are using their rewards, not necessarily more, but faster than we would have previously expected. Again, long-term for the franchise, whilst that puts a bit of a headwind into near-term NIM, it means they're really engaged with the card, they're really engaged with the brand program. So it's good news.

So that kind of explains Q3. As I go beyond Q3 and think about that build to greater than 12%, the things that we talked about in February were, number one, repricing, that repricing action has actually taken place, it's complete. But what happens is customers have to actually purchase under the new terms and conditions. So it's going to drip through into NIM over-time. The second action was really around the funding mix. So we are now around [66%] of retail funding. We want to get that to around 75%. That's going to take a while for us to build, but we've launched the tiered savings products that will underpin that, and you'll see more on that in time. So those things are really important. The last thing I would add is a key part of that move to 12% is how we start to morph this portfolio towards having a richer mix in retail. And you can see that we've announced our new partnership with GM, that again is another plank of this strategy. So we're not going to get to 12% or greater than 12% immediately. You're going to

see it sort of emerge over the next few quarters, but greater than 12% is still our target and we feel like we're on-track.

Edward Firth

Great. Thanks so much.

Anna Cross

Okay. Thanks, Ed. Next question, please.

Guy Stebbings, Exane BNP Paribas

Hi, good morning. Thanks for taking the questions. I had one on capital, then one back to product margins in the UK. On capital on slide 30, thanks a lot for clarifying the various timings and clearly some of them have been pushed out for the US consumer business. I'm just wondering if that changes how you'll manage capital at all. In theory, it sort of frees up some capital in the next 12 months, to perhaps distribute a little bit more early in the plan, or should we think that you're more likely to run at the very top end of the 13% to 14% range, maybe even above it, especially if there's a Pillar 2A temporary uptick. Just thinking about how you think about that capital ratio during 2025 now as we have to wait for 2026 for some of those headwinds to come through.

And then on the product margins, I just come back to that point in terms of the lag effects and saying it might be more meaningful in Q4 on deposits. I would have thought there'd be some sort of catch-up from the August rate cut, if you like and you take the day-one hit on the unhedged deposits and you have to wait to pass some of it back on the rate cut. So can I just check that sort of thinking is correct and your comment around the lag effect being greater in Q4 is maybe a reflection of an assumption of two rate cuts and then if it was just one rate cut, it wouldn't be as more powerful versus what you saw in Q3?

Anna Cross

Thanks Guy. I'll take both of those. On the first one around capital These regulatory movements that we set out for you on page 30 are timing and timing only. And we'd reiterate today our expectation about distributions here. So greater than £10bn for the three years of the plan. For the current year, we'd expect it to be broadly similar to last year, so around £3bn and we said in February that we would expect it to be progressive thereafter. And I just say exactly the same today. And Q4 is normally when we talk about our distributions, and we'll do so then. But we see this really around timing and you would expect us to build capital as we head towards both Basel and the IRB implementations.

Just on product margins and really what I was referring to is you've got sort of about a month's worth of that lag in Q3, you're going to see the remainder of it in Q4. And we are expecting [three] because we use consensus, so consensus has got three rate cuts in the current year. We're expecting a couple of rate cuts in Q4. So you're going to see impacts in Q4 and actually into Q1 of next year.

Guy Stebbings

That's good. Thank you.

Anna Cross

Thank you, Guy. Next question, please.

Amit Goel, Mediobanca

Hi, good morning. Thank you. So two questions from me. So one just related to that product margin. On the BUK business, I see the balance sheet still contracting a little bit in terms of total loan balances and deposit balances versus some of your peers who are showing a little bit of growth now. And so I am just kind of curious the interplay between the kind of the pricing which goes into that product margin versus balance sheet growth and when can we start to see a bit more organic growth and capital redeployment into the BUK business?

And the second question and just relating to the US consumer business, I'm just curious how significant or not with the American Airlines partnership, if there's any colour you can give there in terms of the contribution of that piece to the broader business? Thank you.

Anna Cross

Okay. Thanks, Amit. I'll take the first of those and then I'll hand to Venkat. So it's probably helpful if we start on the leading indicators page that we've included this time, it's on page 14. And if I take you back to February, what we said in February was we didn't expect a significant change in the net balance sheet, particularly in the UK in the current year. And that was because of our expectation and the known maturities that we have, not just in mortgages, but for example, in Business Banking. What we did expect was a change in the gross production. And what we've shown you on page 14 is what I look at, what we look at, week-in, week-out to give ourselves comfort that we are driving that gross production. So in mortgages, it's relatively straightforward. It's actually our gross lending, you can see that stepping forward quarter-on-quarter. It's obviously helped by the fact that the mortgage market itself is strong and robust, but also the fact that we are broadening out our range within that market and we're really putting Kensington to work now, which we've been unable to do over the last few years.

The second point is on card acquisitions, and you can see that meaningful step-up in '24, but we've already started that journey in 2023. And actually what you see over time is that those cards volumes will start to feed into interest-earning lending.

And then finally on UKCB, I know you're not asking about corporate here, but it's a bit more difficult there because clearly what you do is you put out lines to clients which is shown here in terms of RWAs and then those clients in time will draw-down on them.

So in terms of what's happening in terms of lead indicators in the balance sheet, I'm happy we're going in the right direction. In BUK specifically, we saw positive net lending in the businesses that we've got in focus. So we saw positive net lending in mortgages. We're seeing it in cards. What we've got offsetting that is some runoffs in portfolios, which are obviously no longer, core is not the right word, but if I use the example of government lending within Business Banking, I don't think that's different either in percentage terms or in directional terms from our peers, you're hearing similar things there.

So I think we're happy overall. And obviously, as we increase our cards lending, you get a mix impact. As we've increased the proportion of lending at higher loan-to-values, you get a mix impact and that's really what's flowing into the product margin and giving that positive. So let me hand to Venkat on the second part.

C.S. Venkatakrisnan, Group CEO

Yeah, look, Amit, on cards, obviously, we will not talk about any specific account until it's the right time to talk about an account or we have something to say. We also do not talk about individual client profitability or financials. We announced GM a couple of days ago, and so we're speaking about that. And if there is news on any other clients, we will tell you at the right time.

Anna Cross

Okay. Thanks, Amit.

Amit Goel

Okay, thank you.

Chris Hallam, Goldman Sachs

Good morning, everybody. So two from me as well. First, in the IB, if we think about the gradual rebalancing of that business, clearly, dynamics in the quarter for DCM were very strong, strong both for you and across the street. But given the organic reduction in RWAs you saw in the quarter in the IB and the improvement in asset productivity year-over-year, are you starting to make those selective decisions to deemphasise DCM? And where are you comfortable doing less? And when we think about reallocating those RWAs into the financing businesses, should we assume £750m is a floor for Markets financing revenues assuming supportive markets? That's the first topic.

And then second on Tesco, so thank you for the additional disclosure in the update today. So what steps are you planning to take over the next 12 to 24 months to improve the product margins in Tesco Bank? If I look at asset productivity or NII versus RWAs, it's quite a bit lower in Tesco Bank than the rest of the BUK business, looking at the £400m and the £7bn of RWAs. So how are you planning to scale NII faster than RWAs to optimise that capital resourcing question?

C.S. Venkatakrisnan

Great Chris, let me take the IB and then Anna will talk about Tesco. On the IB, first of all, big picture, we're looking to keep RWAs in absolute terms relatively flat to their current number of around £200bn. The relative reduction in RWAs as a percentage of the Group happens because the rest of the Group grows. Second, in the Investment Bank RWAs came down by about £9bn this quarter compared to the previous one, but about £6bn of that was due to FX and £3bn

was actual action. And 1% up-and-down or 1.5% up-and-down in the quarter is normal business mix. Third, we are not looking to de-emphasise DCM. What we are looking to do is within the Investment Bank be prudent in assigning capital to clients looking at the totality of their relationship. And that relationship is not just DCM, but it includes M&A and [ECM] and what corporate banking we do with them. And that's the way to think about it and lending is a part of it, lending is not the only part of it, and we don't want lending to be the main part of it.

As far as revenue of £750m from financing, look, we've been stable at that number. What I would say is that while we have been gaining clients and gaining market share in that business, the actual revenue is a function of two things. It's a function of what happens in the composition of balances, Fixed Income and Equities and so what the markets do, as well as spreads within that. So I can't tell you that it's going to stay at this level or not go up or down, it depends on that mix. What we do think we have is a diversified business between Fixed Income and Equities, a competitive business in both, with a particularly strong Fixed Income business and a diversified business among the types of clients who use it regionally, product-wise and within Fixed Income asset classified, meaning spread versus common bonds. So that's what we think contributes to a good and stable mix. But I'm reluctant to put sort of floors and ceilings on numbers.

Anna Cross

Thanks, Chris. The only thing I'd add to that is, if I take that £9bn reduction, £6bn was FX, as Venkat said, the other £3bn was just the reversal of the client positioning that we saw over Q2 that we said was temporary. So it just kind of brings us back to where we started at the beginning of the year.

On Tesco, or the next sort of 12 months to 18 months, our focus is really on integration and our focus will be on customer service. So that is our primary focus as it would be in any partnership as it was with GAP in the US, so this is just a replication of what we would do with any other partner across the firm. You know, over time, we would expect this to be RoTE accretive for a number of reasons, whether that be efficiency, whether that be funding benefits that you might expect to accrue. And obviously, we'll update you on that in the course of time. But really our objective over the short-term is going to be to integrate it well and really ensure that customer experience is foremost.

Chris Hallam

Okay. Thanks very much.

Anna Cross

Thanks, Chris. Perhaps we could go to the next question, please.

Alvaro Serrano, Morgan Stanley

Good morning. Maybe a couple of questions on the Investment Bank from me, please. First of all, on the fee performance, obviously, very strong in the quarter. But similar to Q2 where you called out a large deal there, is there any lumpy deals that we should bear in mind? Is the performance sustainable? Ultimately I'm asking about the pipeline from here given the strong performance.

And second is on the leverage finance marks. It feels like it's a bit of an odd quarter to take those marks with credit spreads actually very tight. So could you give us a bit of colour on what's driving that? Is it portfolio? Is it a single ticket? Are you looking to sell something or should we expect more of this in the coming quarters? Just a bit of colour on this.

C.S. Venkatakrishnan

Thank you. I'll take the first question and then Anna will take the next question. So on fee performance in Q3, there's nothing special to call out. Look, we are part of certain larger deals, but I wouldn't say that unduly there is anything I would call out. And as I've said elsewhere, we've obviously seen activity pick up over this year compared to the previous year. We expect it to continue to be relatively firm. Obviously, there are a couple of wildcards out there in terms of what happens with the US elections and economic policy and rate policy in the US on M&A activity after that. But assuming no major surprises or changes, we expect to continue to see it to be firm. Anna?

Anna Cross

Okay. Thank you Venkat. And so let me pick up that second one, Alvaro. Lev Fin is a really important part of our business, and you're right, in the current environment, what we see is that market overall performing really well. Deals are clearing quickly. Occasionally, we find that some of those don't, that is episodic. It's a feature of our business. It's a feature of the market overall and not something that we would particularly call-out. So it's normal. What we do at the end of every single quarter is we assess our balance sheet, and we use our prevailing market

information in order to assess the fair value of that balance sheet. Where we feel we need to take marks then we do and that's what we've done in the current quarter. So it's very much a BAU and as I say, it occasionally occurs, it's episodic. I wouldn't comment on our clients as we would never do. And I would just remind you also that this is a book which has some hedging set against it. The cost of that hedging also flows through corporate lending. So we protect ourselves in that way. And I would say overall, our exposures, whilst they're higher than '23, they're lower than they have been historically. So it's a well risk managed book and really this is the kind of thing we see normally, but on an episodic basis.

Alvaro Serrano

Thank you.

Anna Cross

Thanks Alvaro. Perhaps we could go to the next question, please.

Jonathan Pierce, Jefferies

Hello Anna. I've got two, please. The first is on rate sensitivity. Thanks for the hedge allocation data again, by the way, helps us to be a bit more precise in the tailwinds there in Barclays UK. But the piece that I'm still struggling with a bit is the rate sensitivity, the £50m in year-one, I hear what you're saying about a lot of that being relating to deposit lag, but if there's £40bn of hedge maturities a year as per guidance, you'd have thought a 25 basis point shift in the curve would be knocking £50m out of the hedge income in year one. So I'm not quite sure what's going on here. Are you saying that there is no impact on what we might call managed margin from a 25 basis-point rate reduction at all just simply because the structural hedge is now so large in the context of the deposit book. So it would be helpful just to understand why that 50 is so low, it's the lowest in the sector. It's quite difficult to triangulate.

The second question, there's two bits that I would like a bit of clarity on. Barclays UK saw a £4bn increase in the early part of the year for methodology and policy changes. At the time you said that would partially reverse over the rest of the year. It doesn't seem like it has reversed yet. Is that coming in Q4? And then in the other direction, the OR1, I think is pointing to about a £2.5bn risk increase in the fourth quarter. Is that about the right number to be sticking in the spreadsheet. Thanks.

Anna Cross

Okay, Jonathan, let me take the first one. So we said £170bn over three years. So I think you're probably closer to around £60bn of hedge maturing. And really what's going on here is, you've got that underlying maturing rate around 1.5%. So even though rates are coming down, you're still getting a pickup from the structural hedge. And it's only really in the outer years when that grinds out that you're seeing that more meaningful difference. So I think it's nothing more than that, but we can talk you through that outside of here if that's helpful.

As it relates to our relative sensitivity, we talked about this quite a bit as rates went up because we were clearly less rate-sensitive on the way up. So you'd expect us to be less sensitive on the way down. And so that is exactly what's coming through right now. Perhaps we hedge a little bit more. We certainly hedge more proactively. We are looking forward and assessing that on a monthly basis and adjusting those hedges very, very actively as we go to reflect the detail of customer and client behaviour. So I think it's the benefit of that approach that we're seeing and the fact that we've just done this very programmatically over a very long period of time. We're not seeking here to have any kind of view as to where rates will go, we're just letting the hedge roll and we are reacting to and we're reacting to customer behaviour.

And on the second question, I think we'll have to come back to you on that one on op-risk, so let's do that. Venkat, do you want to add?

C.S. Venkatakrisnan

I just want to emphasise the final point Anna made on structural hedging. You know, this is programmatic, this is a hedge, right? We try to understand as best we can, deposit behaviour, deposit balances, customer behaviour affecting that and hedge it. And as Anna said, therefore, if it works very well, it should provide you with the protection meaning you don't see the benefits as rates rise as much as you would otherwise. And you don't see the losses as rates fall, meaning that your NII remains more stable because of that. And that's what we're trying to do and what Anna said is perfectly right about that.

Jonathan Pierce

Just to follow up on that. I'm fully behind the idea of hedging that's not the issue. Just to check though, Anna, I thought the rate sensitivity table ignored any sort of yield pickup on the hedge. I thought it was purely if the yield curve is 25 basis-points lower, this is the impact on us, in which case, if you're reinvesting £40bn of hedge a year at 25 basis points less, that's the entirety of the £50m you're pointing to in year one, which just implies everything else is nothing. Just checking that's the case.

Anna Cross

Yeah, it's just very small in year one, Jonathan. Let us take it outside with you. We'll come back to you.

Jonathan Pierce

Okay. Thank you.

Anna Cross

Thank you. Next question, please.

Robin Down, HSBC

Good morning. Thanks for taking the questions. And also thank you for the added disclosure on the structural hedges. That's very useful. Apologies, but I'm going to bring you back to the BUK interest income issue. I think it is important because it's the main topic of conversation amongst investors this morning. If we look at your £6.5bn guide for this year, it kind of implies a Q4 run rate ex-Tesco's kind of £6.8bn - £6.9bn. If we add in £400m for Tesco, we're at kind of £7.2bn - £7.3bn, I think you're looking to grow next year. I think especially given the 85% of the product hedge is in BUK, that the structural hedge benefit is more than going to outweigh any kind of rate reduction impact. So why are you not going to end up materially above the 7.1 that consensus has pencilled in next year. Is there something I'm missing, some big kind of negative drag that you're anticipating? Thank you.

Anna Cross

So Robin, I'm not going to comment on consensus income for 2025 at this stage. But I'm just going to reiterate the fundamentals of what we're talking about here, which is for BUK, we expect over the plan to have NII growth of mid-single digits. Tesco is part of that. You can see that there is NII momentum in the business organically. We've called that out. You can see it over the last two quarters, it's coming from asset growth, it's coming from the momentum from the structural hedge. Now as I've said before, we haven't really seen the full impact of the rate cuts yet, but we would still expect the net of all of that into 2025 to be positive and then obviously, you're going to have Tesco on top of that. So I'm not going to give you specific numbers now, but the view here has not changed from where we were in February, which is we expect NII for BUK to grow.

Robin Down

But if I come back on that, the view has changed in the sense that we've now got a £6.5bn interest income forecast for BUK for this year, up from what an original £6.1bn. So can I put it slightly differently then? Is there any reason why I can't annualise Q4 at kind of £6.9bn and add £400m for Tesco's? And so I have a starting base of £7.3bn when I look at 2025 numbers.

Anna Cross

So Robin, you're right, we have upgraded our BUK guidance. So we did start at £6.1bn and we're now around £6.5bn and really what's happening here is clearly there is a change in our expectation of rates for the current year. We started in a position where we had five rate cuts in February, now we are expecting three, including the one we've already had and a further two. And then the other thing that's happening here is clearly, we've seen a stabilisation in that balance sheet earlier than we expected. So at the beginning of the year, I said I expected the balance sheet to get smaller before it got bigger. We've seen two quarters now, nearly three quarters of real stabilisation in deposits, perhaps a bit earlier than we expected. And we've seen the asset momentum turn perhaps a little bit earlier than we expected. I'm not going to comment on your numbers for 2025. I'm really going to leave that to you, but just bring you back to our expectation that we expect NII for the UK to grow.

Robin Down

Great. Thank you.

Anna Cross

Thank you. Next question, please.

Perlie Mong, Bank of America

Hi, Anna. Thanks for taking my questions. Can I bring you back to the hedge. Obviously, the hedge is a very large component of the way you manage the interest rate risk. So with the scale of the hedge, does that mean that your sensitivity to long rates would be higher than perhaps other banks or your peers? All else equal, would you expect more sensitivity to the long rates? The reason I'm asking is because there's obviously a lot of discussion around neutral rates in Europe and in the UK. So I'm just wondering, is the reason why your sensitivity is a bit lower in a parallel shift scenario because maybe there's a little bit of difference between the short-end and the long-end? That's the first part of the question.

And the second part is that it sounds like the notional is more stable than we might have expected previously. And you previously assumed a reinvestment of 75% of the maturing hedges. The question is, does it matter whether you reinvest or just simply let it roll off because obviously, you're reinvesting into a higher yield is a positive, but equally, if you runoff 1.5% hedge and then just let it roll on to the variable rate, that is removing a negative and removing the drag so it doesn't matter whether you're reinvesting or not.

Anna Cross

I will take both of those. So first is the tenure of what we're hedging is between two and seven [years]. So I wouldn't say we're any more sensitive to the long-end of the curve than others. We really try and reflect what we think the varying behavioural lives of the different pockets of deposits that we have. And so I wouldn't call that out as a key difference.

And then on your second point, just to bring everybody back to this, the 75% and the £170bn was indicated to give you some maths that you could then update as we go rather than a specific forecast from us. To the extent that the notional is more stable. I mean, clearly, we have a choice every single quarter or every single month as it rolls. At the moment, you're right, we're getting a pickup from that maturity as it rolls off, even if we just left it overnight. And the difference that the structural hedge gives you is obviously it secures it. And so the structural hedge gives you certainty, which is why we do it programmatically and why we're really focused on how much income we are locking in to '25 and '26, which we've shown you again on page 10. So that locked-in number is now £12.4bn over the three years. So for us, it's really about the certainty and stability of NII rather than being opportunist every month passing. And just to remind you that equivalent number was £8.6bn in February.

Andrew Coombs, Citi

Good morning. Two questions, one more precise. On the precise question, [this is about the] Pillar 2 offset. You talked about the Pillar 2 modest increase followed by a part offset of the later RWA inflation. It's probably too early, but anything you can provide in terms of quantum and does that potentially even change your 13% to 14% [CET 1] ratio target? So that's the first question.

Second question, much more broad-based, looking into the budget, thinking about both the UK business and the Investment Bank, assuming we don't get a bank tax, is there anything else you're particularly looking at in terms of when you're thinking about future customer activity, be that CGT and the buy-to-let market, be it employers, national insurance contributions and the SMEs, etc? Thank you.

Anna Cross

Okay. Thank you, Andy. So really too early to say. And what we called out here is that as you can imagine, in advance of implementing this model, and we actually have been holding some Pillar 2A already. There may be some modest increase in that before we implement the model in full. That's all we're calling out. It's difficult to give any specific guidance around quantum or exact timing, but you'll note that we said modest. And I'm just reiterating, we are already holding Pillar 2A for this. And then the other point I'd make is that obviously we still await some guidance from the PRA. And so there is some expectation that we get some guidance around Pillar 2 offsets where they're really trying to avoid double counting between Pillar 1 in Basel and Pillar 2A that exist currently. And really, we need to see all this put together holistically before we give you firmer guidance.

C.S. Venkatakrishnan

On the budget, listen, we are a large UK bank which operates across different sectors of the economy. So whether it's taxation, whether it's borrowing and financing by the government, whether it is private investment and helping with public investment, whether it's individual investment behaviour that comes out of whatever the budget says. We would expect to see activity across everything which we do. I can't tell you where and how much and what the net of it is, but expect us to be actively engaged across all the different dimensions of it.

With that, thank you, everybody.

Anna Cross

Yes, thank you everybody. I really look forward to seeing some of you on the road and we will see some of you at the sell side breakfast in November. Thank you for your continued interest in Barclays, goodbye.

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