Barclays Q2 2025 Results

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

Anna Cross, Group Finance Director

Morning, everybody. Well done for getting here. Okay, so as always, I will start with some intro remarks and I'm just going to reflect on some of the discussions that we've had on the road in the last few days. And it's been less than a week, since we reported. So, I'm not going to repeat the detail of our Q2 results, but instead, let me draw out a few stats to help you understand the pattern of consistent delivery that we're driving for and hopefully, which is increasingly visible from Q2 onwards.

So first, at the group level, we shared with you that our RoTE over the last 12 months reached 11.1% and that excludes the impacts of inorganic activity last year. And this [trailing 12 month] measure has increased consistently every quarter since Q1 2024[1], starting at 10% then 10.1%, 10.4%, 10.5%, 11%, and now 11.1%. And what that's demonstrating is this pattern of higher and more consistent returns that we are aiming for.

Secondly, in the Investment Bank, we are improving the structural level of our returns, and we're doing that in three ways. The first is by increasing the level and the stability of income. Secondly, by maintaining cost and capital discipline, and thirdly, by managing our risk prudently. So, within Global Markets, we've grown our share by over 1% across our three focus businesses, which are Equity Derivatives, Securitised Products, and European Rates in FY24. And based on peers' reported numbers to the half year, we've also taken share in FICC and Equities in the past 12 months whilst continuing to grow Financing including Prime. We now rank top five with 60 of our top 100 markets clients versus 49 at the end of 2023, and well on our way to 70 by 2026, which is one of the targets that we gave you at the Investor Update. And within the Investment Bank as a whole these stable sources of income accounted for 40% of our income in the past year, up from 29% in 2021. And importantly, we've been able to do that while delivering positive operating jaws for the last five quarters and maintaining broadly stable VaR with only two loss days in Q2, which compares favourably with peers.

The third thing is in the UK we are seeing consistent RWA growth and organic momentum. Q2 marked the fourth quarter of net mortgage growth, the third quarter of corporate lending growth, and the second quarter of core Business Banking loan growth. And looking ahead the consistent credit card balance growth we've had since 2023 should increasingly turn into interest earning lending from [the second half of the year].

And then lastly, some thoughts on how we think about the plan beyond 2026. We do expect the level and consistency of returns to improve further as we continue to execute on actions and initiatives as set out in the strategy. And one area where you can already get visibility of this is with the structural hedge. The overall yield on the hedge is currently 2.5% and as you know, this will increase over time as we reinvest a significant proportion of the portfolio each year. To help

you think about the trajectory, in 2027 the maturing yield on our book will be c.2.1%, supporting strongly positive income growth from reinvestment and multi-year NII growth beyond 2026. Across the group we will also continue to drive greater operating leverage and cost efficiency, particularly in Barclays UK and the Investment Bank, as we work to streamline processes and modernise our technology and infrastructure.

So, as we cross the midpoint of the three-year plan, we are delivering consistently, and by doing so, we remain firmly on track to achieve our objectives for 2025, 2026, and with further ambition beyond that. And with that, I am happy to take your questions. Please, can you introduce yourself with your name and your institution because this meeting is being transcribed, and I will start on my left with Chris.

Chris Hallam, Goldman Sachs

Thank you very much, Chris Hallam from Goldman Sachs. So I guess one simple question, just to begin with, on UK motor, perhaps you could remind us, last quarter you provided some context and overview of your position in that segment, just a recap of that and also how you see the developments over the last 48 hours in terms of impact on the competitive landscape in the UK and also maybe with the potential redress scheme, the sort of growth focus from the UK government.

And then secondly, separately, the Investment Bank, you have the 50% of group RWAs target. You have said repeatedly RoTE is the North Star. I think on the call, Jason's question about if the revenue number gets up that would support a higher RoTE outcome for the group. Is that the right way to think about it? That the 50% RWA target would be the one that sort of, you'd be happy to give in order to let the IB do what it can do and probably support outperformance versus targets?

Anna Cross

Let me start with UK motor. So just to remind you, we exited the business and sold our business in its entirety in 2019. And up to that point, we'd had a low single digit market share. We were not a big participant in the market. We welcome the clarity and the reduction in uncertainty that's come from the Supreme Court ruling on Friday. And we also welcome the news from the FCA yesterday that they will consult on an industry wide redress scheme. So, we'll be spending time with them and the government ensuring that that is fair and balanced. And that's probably all I can say at this point, you know, given that we've yet to hear from the FCA in detail and, you know, this is live, coming out, but that's broadly where we are. So, nothing really to sort of add from where we've been in the past.

On the second point, the 50% is, I would say, both an intent and an output. By an intent, what I mean is it's in service of growing a business with high returns and more stable returns. And that is the simple objective of the plan that we set out. And it's also an output, and it's an output from two really important, if you like, strategic plans within the plan itself.

The first is our belief that we have the right waterfront and the right level of capital within the IB. And I think that we've shown that we can grow it and grow its returns within the waterfront that we've given it. And we did say at the outset that we felt there were areas where capital could become more efficient, and we still continue to see that.

The second part is clearly the growth in the UK to which we are committed both for the £30 billion [RWA growth] and beyond. You know, we're going to continue to want to grow those high returning businesses.

The third piece of the jigsaw, which is less within our control, is clearly the timing of regulatory change. And that's clearly a factor in getting to that 50%. So, the timing of the implementation of the US card model could be 2026/2027 and somewhat out of our hands, Chris. But I think the really important part and the intent is maintaining capital in the IB, certain that we can grow within that and, and continuing to grow the UK group.

Philip Richards, Bloomberg Intelligence

Phil Richards from Bloomberg Intelligence. Two questions as well please. First of all you have given us quite a lot of information on the structural hedge and the impact on the UK, but if you could just, take a step back and look at the overall UK margin in terms of UK bank and what the outlook is for the next couple of years.

And then secondly, credit costs seem to be coming in lower pretty much every quarter, at the moment, than your 50 to 60 base points through the cycle. Is that how you expect it to remain over the next 18 months or so?

Anna Cross

So, I'm going to interpret from your question, that you want me to talk about Barclays UK. So I mean we're not guiding to NIM , we're guiding very much to net interest income, and that's really because we're growing both the numerator and the denominator. You know, we're growing our asset businesses, strongly as you can see, and depending, in any particular quarter, the dominance of either secured or unsecured, then that's clearly going to make a difference to that margin from mix. But generally speaking, we do feel we've got momentum in the margin that's coming not just from the structural hedge, and remember that's coming from the strengths of the deposit business overall, but also from the fact that we are growing assets and in particular, I do expect that the promotional balances that we've written over the last 18 months in cards are going to start to mature and they start in the second half of this year. But the, the greater bulk, if you like, the longer dated promotional balances will really pick up in 2026. So, I'm expecting that momentum to continue. But more importantly I would say is just growing the balance sheet overall whilst growing that margin, so you are going to see that continued NII momentum.

On credit costs, the UK generally it's just very benign and customers remain very disciplined. We can see that in their actions in terms of their spending. Spending has typically been below inflation for, for some time. We're now seeing signs that credit card spending is outstripping debit card spending but that's a relatively new sort of over the last six months type scenario. And at the same time, through COVID, they very much deleveraged their own balance sheets and we saw quite a reduction in unsecured lending through the UK. So, all of that is going on in the background, but at the same time, you also see real wage growth. You see good demand for mortgages, you know, low, but pretty stable if not slightly growing HPI. So, all of the economic indicators are actually pretty stable. Corporate failures are not systemic, they're idiosyncratic from what we can see. So, there are really no signs of distress in the economy. I mean, to give you an idea, our UK credit card delinquencies across 30 days are 0.7%, and our UK mortgage delinquencies are 0.2% across 90 days. So, they're very, very low in historical standards. So, over

time we would expect them to normalise and clearly we're going to see a degree of normalisation as we continue to grow the book. But there's certainly no immediate signs of it so I think the customers are in good shape.

Jordan Bartlam, Mediobanca

Hi, so Jordan from Mediobanca, I had a quick one on US cards. So it was a decent pickup QoQ in the US cards NIM. I was wondering whether that's sort of a new baseline. It's been a bit choppy, that NIM print, as you've had the repricing actions from last year, the changing funding structure. Is this kind of a new benchmark level, we progress from here or is it going to continue to be quite choppy both up and down? And then also there's a bit of complexity in terms of how you book the hedge income within US cards. Just maybe a bit of a better understanding of the nuances there, whether it's through net interest income or other income and [inaudible].

Anna Cross

So, we did see progression in the NIM and I expect to see further progression from here. And that's really coming from the repricing actions which continue to mature, as you say, we took them last year, but, customers need to spend on the new terms and conditions for those to become live, and we continue to grow a deposit. We're around 73% [core deposits] now and we expect that to get to over 75%. That's our objective and you can see that on the slide and there is a differential in margin between those broker deposits and direct to retail deposits. Slide 25, if you want to have a look at that. I think it's the chart in the bottom right-hand corner.

So, the other thing that's going to help us progress Jordan, is, bringing on GM. So, GM is a higher margin because it's a retail book, but the risk adjusted margin is very good. So, you can see that, remembering Q3, we're going to onboard the back book of GM. We're already originating on the front book, so you're going to see further progress from here I think, in terms of that NIM.

And just in terms of the two, quirky things that we've talked about before. We're now starting to book those on a forward basis in a different way. So, you're going to see the hedging come flowing into NII. So previously, the way we hedged this, you saw the margin compression from any rate reduction coming through in the NIM and you saw the offsetting income in non- NII. You're now going to see those geographically in the same place, bringing it into alignment with the group.

And the third thing is, whilst it's not a massive matter in the quarter, previously what we've done is where we've had large pools of cash on the balance sheet used to pay down securitisation, they were included in that NIM calculation on an ongoing basis. Again, in alignment with the group, we will exclude those. So, I think some of that will take some of the choppiness that you've seen quarter to quarter out of the NIM also, Jordan. But the, most important thing is this forward momentum that's going to come from pricing and mix really. Okay, thank you.

Canberk Benning, Citi

Jan from Citi, just one quick question on the IB. So, you talked about beating consensus for the last six quarters. How sustainable do you think that would be going forward, particularly in the trading, FICC and Equities, because I know some of your peers have commented on that. And then secondly, on lending, have you seen any sort of uncertain distress from corporates based on the macro environment, particularly after tariff regime in US or is it, mostly a wait and see moment or is it just business normal?

Anna Cross

Well clearly beating consensus, is a tale of two halves. So, I can't really comment on that. What I can comment on is the fact that we are confident in our ability to grow the IB, generally speaking. And that's really coming from our objectives to grow and stabilise. So, you can see the momentum we've got in those stable sources of revenue. We talk about Financing a lot, we talk about the International Corporate Bank less so, and remember they perform similar roles in those different parts of the Investment Bank. So, expect that to remain our focus.

Expect us also to want to continue to mature out those focus businesses that I talked about within Markets. And we do feel like we are taking share. And expect us to continue to want to take share in Investment Banking fees.

So, that ambition remains there. We still want to get this business to be in alignment with the group RoTE in 2026 and to make some progress in 2025. So, you should expect us to want to keep pushing that income momentum. Now, clearly what we saw in Q2 was a degree of volatility particularly in April and so we saw our daily run rates in April pretty elevated. But actually in May and June they were higher than they were in the previous year and that's really coming from the stability of that Financing business. What we are not assuming in our sort of c.11% is that there is market volatility in the year to go. Clearly if that occurs then you should expect us to monetise it, but that's not something that we are relying upon.

On your second question, lending, as I said in in my question before, we don't see any sort of significant points of distress in either the UK or the US relating to tariffs or national insurance changes or minimum wage changes in the UK. They're very idiosyncratic where we see those points of pressure. Of course, we do use SRT as a credit relief mechanism and we focus that on specific sectors where we have concerns at times, but really nothing to call out. There's a little bit of wait and see, and it's very industry sector specific as you're probably picking up. But at the same time I think the general economic pressure and the desire to grow productivity is also leading some corporates to want to invest. So you see both extremes really and it is very corporate specific.

Priya Rathod, Jefferies

Hi, this is Priya Rathod from Jefferies. Just a higher-level question on your cost target. So, you realised £200 million of the expected £500 million, for FY25. Do you see any execution

risks for the remaining £300 million? And I know we've touched upon macro today and even last week, but just say there's a shift in the macro in the second half. Are you confident that you'll be able to see that remaining £300 million. Thank you.

Anna Cross

Okay, so just a reminder everybody, we got £2 billion target for the three years together. Actually, at the end of the first half of the plan we're at £1.35 billion. So, we've done £350 million of the £500 million that we need to do this year at the half year. So, £1.35 billion through that £2 billion and we've got a good line of sight here in relation to the execution of that. Inflation tends to hit us on a lagged basis so if we did see a pickup in inflation, we would expect to see that pressure a little bit further out because it tends to feed through into property and into people costs on a bit of a lag. And that's one of the reasons why we're still seeing quite high inflation coming through the cost

base in 2025 when actually the headline rate dropped in 2024. That's kind of how it tends to affect us, but we've got good line of sight to those cost savings this year around next year.

I think the sort of bigger point that we are thoughtful about now is really what's beyond 2026 and really how do we keep that focus on efficiency. And as I said in my remarks, it's really technology focused, and process focused. That's clearly harder to do than people and property. And that's one of the reasons that we phased the cost reductions as we did through the plan that we've already got. So, a £1 billion in the first year followed by £500 million and £500 million, just recognising that those cost reductions are a bit harder to get after now. Thank you.

Elise Yu Ge, KBW

Elise Yu Ge from KBW, thank you for taking the questions. I've just got two please. So, first is on margin for US consumer, which has been improving Q2 to 10.8%. But it just feels like still a long way to your more than 12% target. I'm just wondering if you can give us any colour on that.

But on the other hand, Q2 seems to be having some encouraging signs of corporate loan growth pickup. Just wondering, you know, what are your thoughts on it and in terms of the drivers behind. So that's my tricky way to combine the two questions, but hopefully it's some way related.

And then second one is on capital. So just curious on your rational for running with the CET1 on the top end of the range. So that's 14% Q2, particularly with some of your peer banks, like Lloyds cutting down to 13.8%. I know you've been talking about continuing growth with RWAs, just wondering if there's any other thoughts? Okay, thank you.

Anna Cross

You know, our views on margins very similar to Jordan's question really. I mean, we've got a good line of sight to the targets, which is greater than 12% and that's really coming from the three things that I talked about before, which are pricing, deposit growth, and then mix. Clearly the onboarding of clients like GM really help that and the continued rebalancing. To give you an idea, at the moment we're about 15% retail, post GM it will be 20%. So that really does

start to push the NIM but really importantly, a higher risk adjusted margin. So, the, increase in NIM more than compensates for any increase in a loan loss rate that we might expect.

On corporate loan pickup. I'd sort of nest it in the context of the discussions that we've already had around credit. So it really is I would say an improved supply side on our part. And if you go back to the deep dive that we had, with Matt Hammerstein last year. He was really focused on working with the clients we already have with whom we've got deep cash relationships or merchant acquiring payments relationships. So, we know them well. Really sort of reinvigorating our appetite to lend to those clients and you can see that coming through and that's product, its process, it's digital engagement. So, all of the things that we talked about is just the strategy. I think the other thing I would call out is that we are growing our client base, so we onboarded 550 new clients last year, 330 this year so far. So, we are actively acquiring clients, and we can see that our market share of both lending and deposits is going up.

On your final point as to why we are running where we are on capital, we talked to Q1 about the fact that we were now holding a bit more Pillar 2A and that reflects the fact that there is a delay in the implementation of the US card model. What that does is it increases the MDA and therefore

we are seeking to run a buffer above that. Similarly at this point in time we have no clarity as to what will happen for Pillar 2A in UK Basel. So Pillar 1 is going to go up, we might expect a degree of offset and Pillar 2A, but we don't know what that is yet. And therefore, we are very happy running where we are. The business is highly capital generative. So, we are both generating good returns and improved returns, but on a higher capital base and we're comfortable doing that because it gives us options in terms of redeployment and distributions. As you've seen distributions are up significantly year on year, 21% up and that buyback is up to a billion. So, immediately on the day that we announced, obviously the capital drops to 13.7%, so it's in the zone that we said it would be and we are happy there until we've got further clarity.

Sheel Shah, JPM

Okay, great thank you, Sheel Shah, JP Morgan. I've got one on UK NII and then a few on cards please. So, on the UK NII it seems like there'll be a hockey stick effect for the third and fourth quarter. I know you've spoken about the card balances coming online in the second half. The hedge contribution in the first quarter was about £50 million increased quarter on quarter. The second quarter was about £75 million quarter on quarter. Is there some lumpiness in this that we should be expecting for the third and fourth quarter or is it going to be a bit more linear between them both?

And then for the cards, just a few there. You've spoken about the asset quality environment in the cards business UK and US. How should we think about the stage two ratio? Normally that, at least on the US side used to run above 30%. I know there's some moving parts from book sales and Tesco coming online, but should we be going back towards that sort of 30% in the US and sort of mid-twenties for the UK?

And then just one more on US cards with regards to, there was a deal around Apple Pay, earlier in the year, it seems you may have lost out to at least. I'm just wondering how you're thinking about competition in the cards market. It seems to be quite competitive. Is this a pricing market? You know, what's the main source of competition in this market? And keen to get your thoughts on the market overall?

Anna Cross

Let me start with UK NII. I think a hockey stick is too strong an expression. You know, clearly what we called out is that there was some headwinds in NII in the first couple of quarters really from these maturing swaps. The timing on the accounting, which then neutralises in the second half. And remember you've also had some base rate reduction effects in the first half as well, so, you get that sort of repricing timing coming through. So specifically what you should be modelling is that the negative factor in product margin in that sort of diagram that we've given you goes from being negative to neutral to positive essentially in the second half. So, I'm not looking at any particular lumpiness. Really what you've got coming through is continued role of the structural hedge, continued asset growth, but then the margin matter, really that hedge effect dissipating and also the maturation of cards starting in the second half. So not lumpy.

On the second point on cards, it's difficult to call out a specific percentage. Essentially, what stage two is that's the real sort of procyclical element of IFRS 9 is the way I think about it. Because they're almost certainly not delinquent, but your model is telling you given the macroeconomic environment or your macroeconomic assumptions that they may well become delinquent and

therefore you start providing for those. So, there can be movements in and out of stage one and stage two purely on the basis of a change in consensus, macroeconomic consensus, which we use to drive our IFRS9 models. So, it's difficult to call out a specific percentage, but if you saw an expected deterioration in the macroeconomic environment, that's where you'd see the increase in charge coming through a higher coverage of those stage two balances.

The other thing I would say is perhaps two offsetting things. Given that the level of indebtedness is such structurally lower, not just in the UK but in the US, clearly that also feeds into whether someone is stage one or stage two. Because the more sort of borrowings you have, the more likely it is that we regard you as a stage two borrower. So, a general level of reduction in indebtedness across both markets will feed through into a generally lower level. Conversely to that, if you start to see a pickup in spending that comes from economic confidence, even though the environment might be better, if customers start spending more, then that can also trigger them into stage two. I often say to my colleagues, if they go and buy a new house and start buying stuff for the house, they will certainly become a stage two customer irrespective of whether or not you feel you are a credit risk. So, it's quite sensitive really to nuances and customer behaviour. So, I won't call out percentage but a few things to think about there.

And then finally in terms of the US cards book we continue to look for new partners in the US and you should expect us to do so. We see really our sweet spot probably where we have a competitive edge around a slightly smaller portfolio, say between £2-4 billion. We like that because typically, it doesn't put a huge concentration in our book, which we're always mindful of. So, we don't want very, very large books within there, just because of the scale of our business. So don't expect us to pursue a Walmart or a Costco or anything like that. Simply the book isn't big enough to house that. We wouldn't want the concentration risk. It is always a balance between price and the rest of the service that you can give those businesses. Remember for us we do not have our own brand in terms of cards. That makes a difference to partners. We are not competing in the wallet against them with our own card. The other thing is we carry their brand. So the service and the operational stability that goes with it is really important. So we continue to invest in digitisation of this business. And in fact, the customer facing and customer engagement digitisation is probably the best in the business, not necessarily at the operational end, but in the way that you interact with us. So we think that's also important for partners. So it's not just price, it's very multifaceted. And you can see that in our retention. In the last year we've won not only the GM, but we've retained four. So, it does come through in the retention stats. We're able to build those businesses very successfully, retain clients, provide a really high level of service. And you can see that in the satisfaction of the partners that we work with. So very focused on that.

Jason Napier, UBS

Good morning, Jason from UBS. The first question just on Tesco Bank, thank you for the slide disclosure on total revenues of cards plus Tesco. That number of £279 million is only £61 million more than the divisional disclosure of cards on its own, which implies that Tesco only did £60 million of revenues in the quarter, £250 million annualised. It's supposed to be £400 million when you bought it, maybe there's something else going on in the allocation.

Anna Cross

Yeah, we'll come back to you. But just to reiterate, our expectation for the year is that Tesco will have an NII of c.£500 million, so the £400 million plus funding synergies. So, if there's a concern on that slide, we will come back to you.

Jason Napier, UBS

Okay, perfect, thank you. And then the second one, another thing that I'm getting wrong persistently is I'm looking for rate leverage in things like the Transaction Bank and the Private Bank that just isn't turning up. It's growing instead of shrinking as rates go down and the volume growth isn't particularly strong either, so the hedge is small, the LDR is low, and yet it's growing really well. Could you talk a little bit about the outlook for NII within transaction banking and the Private Bank top line please?

Anna Cross

So, it's as simple as balance growth relationships. I mean, there's nothing else going on within Transaction banking or indeed International Corporate Banking. We're just seeing strong growth generally. You know, I think it's unlikely that we will see a rapid increase in the LDR. Our objective is to grow deposits and corporate deposits in alignment with the market. We're actually doing a bit better than that and I think that reflects growth in clients and it reflects growth in client balances. You know, as I said before, corporates are actually in relatively good shape and at the same time, you know, perhaps a little bit of wait and see in terms of their actions, for many of them. So you can see that coming through. So nothing really to call out. In Private Banking and Wealth Management, very similar. Some lumpiness quarter to quarter that just comes from transitory balances, flicking in and out of investments, but client assets and liability growth in that business is c.11% CAGR. So, it's just relationship growth. Jason,

Jason Napier, UBS

Sorry, just to come back on that, the deposits in the Corporate Bank are flat year on year and Private Bank deposits are up 3% year on year, Transaction banking's up 11% year on year, NII up 9% year on year. On the big numbers it's hard to, to see what's driving the growth in a falling rate environment. Is it just that we can't see the spread mix in the business?

Anna Cross

Yes, a little bit. I mean NIBCA, so our non-interest-bearing current accounts are very stable in those businesses. You saw quite an early reduction in those. So if you remember back to the sort of rising rate environment, actually you saw that migration happened really early in both Corporate and in the Private Banking and Wealth space. So really they reached a point of stabilisation much faster than the other businesses had done. Dan, anything you'd add?

Dan Fairclough, Group Treasurer

Well, I mean, just the earnings on those balances are generally current rate balances. I wouldn't say they're going down in terms of the rate environment. So, the asset side's pretty stable as well.

Nicolas Payen, Kepler Chevreux

Couple of questions on the UK and regarding your target of £30 billion RWA growth. Just wanted to see if you see any particular areas of opportunity at the moment. You mentioned for instance

good mortgage growth and the conversion of the commercial balance in consumer and unsecured lending. So just wanted to know if there is anything, particularly attractive at the moment.

And then just focusing on Kensington maybe, it's an increasing part of your flows in mortgage and just wanted to know what is the density on this mortgage compared to a traditional LTV mortgage? You mentioned the higher margins, but what about the density on this kind of mortgage? Thank you.

Anna Cross

Okay so, in terms of the RWA growth in the UK expect more of the same. If you look at our current run rate, we're around £2 billion per quarter across the first half, we might expect that to pick up a little. And you can see that from the momentum on slide 13. But nothing specifically to call out beyond what we talked about before. So continued net growth in mortgages, the housing market remains buoyant in the UK. It was a little slower in Q2 than it was in Q1, just because of the stamp duty affects but we still grew net. We do expect slightly higher level of redemptions in the second half, but our retention is good. And gross share is probably a little higher than our stock share. So, expect that to continue. And within that sort of really using the full breadth of the range that we've got with Kensington, which I'll come back to.

Cards very similar. You can see the run rate that we are going at now deploying not just Tesco into the market, but also Amazon and Avios. So, remember, we're running essentially four brands, now as we address that market and that's really helping us target different types of customers, different products.

Corporate lending you can see is picking up some momentum. What happens there is we put the RWAs out and then you subsequently see the drawdown. So, there's some timing disconnect between RWAs and lending in corporate. Typically, we've put those facilities out, we've seen subsequent drawdowns.

And then the last one I would call out is just Business Banking. So, worth looking at the bottom left-hand side of page 13. So, in Business Banking remember it's still got a lot of these COVID era loans within there, that are in run-off. So you've seen those declining over the last few quarters and really what you should be focused on is the darker blue area at the bottom, which is probably too early to call it a trend yet, but we are pleased with that progress in terms of Business Banking lending really starting to turn and expect us to focus on that more. So, a bit more of the same, maybe with a bit more intensification on that Business Banking side.

On Kensington, I describe it as not necessarily high risk but more complex risk, that may or may not be higher loan to value. That gives a substantially higher margin, so we said roughly four times for an equivalent product in the sort of Barclays vanilla range if you like. But in doing so, we are being mindful of both the flow and the stock of higher LTV on the book. So you can see that even with Kensington running at quite a rate, the flow LTV of the book is still slightly less than 70%, 69.5% in the quarter. And we are essentially managing the flow to managing the overall stock risk on the book. So less than 16% is over 70% LTV on the book. So, we're happy with where we're running. Kensington is a standardised portfolio, at this stage, so that should give you some ideas to as to how the risk weights are relative to the book as a whole.

Giulia Aurora Mioto, Morgan Stanley

Hi, good morning, Giulia, Morgan Stanley and I have two questions please. The first one is about Corporate Lending, the negative revenues. And so you said before corporates are in a good shape and [inaudible]. So why these marks are you perhaps being more conservative, taking advantage of strong trading?

And then secondly, with the US deregulating, what do you think the UK PRA will do in response? Are there any lines they will not cross or how would they ensure competitiveness for UK banks? Thank you.

Anna Cross

Okay. I'll start on the first and I'll make some comments, but I will invite Dan to comment on the PRA also. So, within that Corporate lending line there are quite a few things included within there. You've clearly got Corporate lending, exactly what it says on the tin. You should expect that to be sort of stable QoQ. Then we do have marks both positive and negative going through there. They were positive in the quarter before, negative in this quarter, and that's just us reflecting specific clients. I won't obviously call out names, but as I said before, where we see issues, they are idiosyncratic. So they still do occur, they're just not systemic across the book. So, it's not really inconsistent with my comment around overall credit quality.

The other thing that's going on in there is we do put the cost of hedging through there. So, to the extent that we are in a more volatile environment, you would expect us to hedge a bit more. And, and clearly that's what we saw during the second quarter. So, take all of that together. Just to remind you the cost of SRT also goes through that line in terms of the Colonnade program, although that's broadly stable. So, just think about those levers.

In terms of the US I think sort of beyond deregulation what we see in the US is a real desire to look at the capital framework holistically. So looking at, not just Basel, but looking at SLR and looking at the stress testing regime and looking at the GSIB regime all together. And so we welcome the desire of the FPC really to sort of look at this more broadly in the UK, but Dan anything you want to pick up specifically?

Dan Fairclough

I think the debate with the PRA has often been about Basel principles and it's been about the implementation of Basel 3.1. I think it feels like where we're going to go now is, as Anna said, a bit more of a sort of fulsome look at all of the different aspects of the regime. So, in some of those respects, they may not be bound by Basel, they'll be sort of individual, UK specific items. So yeah it'd be interesting to engage with the consultation and obviously where the US goes will be a useful sort of barometer for us.

Anna Cross

Yeah, if I can just add, I think the last thing would be that point of international alignment we think is important not just for the bank but also for clients and for investors. And the other piece would be just getting clarity on how Pillar 2A will also interact within this will be important.

Perlie Mong, Bank of America

Hi, it's Perlie, Bank of America. So just a couple of final questions I suppose. TSB, I guess no one would say that the price they went for was particularly cheap, but I guess nevertheless they

managed to come up with a pretty attractive RoI, notwithstanding the fact that they're using a 55% synergy assumption which is quite high. I guess any comments you could give in terms of why in the final rounds you did not go for it, and maybe just a wider thinking of what level of RoI do you think would be worth it if you were to do an M&A transaction?

And then a couple follow ups on the [US] cards side. Note that you said that you are mindful of the concentration risk. I think there are maybe some portfolios that are maybe a bit more at risk of maybe having a combination. I guess Hawaiian Airlines you might have in mind. I know you said that you're [continuing] that partnership and nevertheless there's some conversations around that. So, does that mean that if that were to happen in the next few years, you would not want to chase that volume because it would present too much concentration risk?

And I guess the other follow up to the cards question is, again, you mentioned that you wouldn't chase volume and that RoTE is a north star, but equally cards is a scale business. And when the AA book goes, I guess in the next year, I don't suppose the cost base would fall by 20%. So how do you balance between the cost element and the scalability of the card business and sort of not chasing volume for the sake of it?

Anna Cross

As you would expect I'm not going to talk about any target potential or otherwise. So, I'm not going to talk specifics here, but I will talk about how we feel about M&A generally. So, we've said in the past that where we consider M&A you should expect us to do it in our three highest returning UK businesses. That in so doing we would be looking for either scale or capability. So, Kensington was capability both in terms of its, risk and underwriting capability, but also its securitisation capability. Tesco is both scale and capability. So, as we integrate Tesco, it is an integration and not a migration. So, we are building some of the Tesco functionality into Barclays as we bring those balances across. So, looking for both of those things.

And then the third thing is obviously price and return. So, anything that we've done in the past ticks all those three boxes. And anything that we would do in the future would tick all three of those boxes. I won't call out a target RoI, but you should expect that as we look at things, we're also really mindful of our capital hierarchy, which is number one regulatory, and number two, distributions to shareholders. So we don't want to distract the business either from the distribution targets that we've given you already, which are at least £10 billion, nor indeed operationally. We don't want to, have a significant operational lift that we believe would be difficult within the context of the plan, timeframe beyond what we are doing already, we're really execution focused. And then the third thing is investment in the business. So, expect us to remain really disciplined, and as we look at things as a high bar.

In terms of US cards, to your point on concentration, look, I talked about previously wanting to be at sort of the 2-4 billion dollars type range. Clearly if there is further consolidation in the market then we'll look at things on a case-by-case basis, I wouldn't give you a conclusion here. The one that we walked away from was obviously American, which would have been in combination, a very large file for us. And not only that, a very large file with a low risk adjusted margin. So that's why we walked away from that business. So, remember as AA exits the business, you're going to see a few things happening. You will clearly see the risk adjusted margin go up. As you say, it does put some economies of scale pressure into the business from a cost perspective but expect us to be working very hard on that even from now. And we do think that growth continues to be both

attractive and possible in this business. So, we still remain ambitious to sort of grow balances over time, so we'll just continue to do that. But RoTE is the north star.

Okay. Any more questions? Sheel has one.

Sheel Shah

Just two very quick ones. You said on the 2027 hedge the maturing yield which was helpful. Should we expect £50 billion being the turnover in terms of the maturing balances?

And then secondly, just Dan to come back to you with regards to changes to the regulatory framework. I'm sure capital will be mostly the focus, but I don't think any of the UK banks will be leverage constrained, so would there be any sense in adjusting anything on that side just to get your thoughts on that?

Anna Cross

Why don't I start and then I'll hand it to Dan. I think it's reasonable assumption that the hedge is broadly programmatic.

Dan Fairclough

We haven't given any specific details in 2027, but you can extrapolate from 2025 and 2026, that's reasonable.

Anna Cross

And do you want to talk about leverage?

Dan Fairclough

Yeah, look, I think leverage will be part of the package. I mean, I kind of agree with you on your point that generally the UK banks are CET1 constrained, but I think it's part of the overall package. There is conversation about the treasury exemptions in the US regime and I think we'd be interested in having the same type of discussion in relation to gilts in the UK. So yeah, part of the package, maybe not driving it, but an element.

Anna Cross

Thank you everybody. I hope you get a break over the summer, and we will see you soon. Thank you.

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