Barclays PLC H1 2022 Results

04 August 2022

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

Anna Cross, Group Finance Director

I will make a few opening remarks and then we can get down to your questions.

We are very pleased with the performance this quarter. We announced a 2.25p interim dividend, and a half-year buyback of £0.5bn. That is on top of the £1bn buyback that we announced with the FY21 results, which is proceeding really well and [is expected] to complete relatively soon. We also said that we are continuing to target >10% RoTE in the current year and beyond.

So what delivered that? The Group's broad-based income growth is really at the heart of it all, continuing to deliver in Q222. Despite the higher L&C charges in the quarter, we were able to deliver a half-year RoTE of above 10%, and PBT in the quarter of £1.5bn.

On income, that performance is coming [from] across the [businesses] that we have. Excluding the over-issuance hedge that we have, that income growth is 10%. We are especially pleased with the performance of the CIB, and particularly within that, FICC within Markets.

What that allowed us to do is offset the ongoing market-wide impact of lower banking fees, and hopefully that shows what we set out to do within the CIB, which is to have diversification within it.

We saw really strong momentum in CC&P, and you are seeing income growth there across all three constituent parts.

And lastly, [Barclays UK] continued to benefit from the momentum that we see from balance sheet growth, but more importantly the tailwind from rising rates.

As I said on the day, positive [cost: income] jaws are really important to us. In an inflationary environment, we are particularly focused on operating leverage across all of the businesses. Our group costs excluding L&C, what we call our operating costs, were up 3%, against that 10% income growth.

Given the higher L&C costs in the quarter and in the half to date, plus the impact of FX across the network, we have guided to higher costs, higher absolute costs, in the year of £16.7bn.

Turning to impairment, our Q2 credit impairment charge was £200m; that includes the day-one Gap impact. We broadly maintained our provision levels in light of macroeconomic uncertainty, and specifically around the post-model adjustments, and we have reiterated that we expect the charges to be below pre-pandemic levels in the coming quarters. We also showed you an illustrative scenario [where we used a] 100% weighting on the downside [1] scenario, just as an illustration to show what might happen [to our modelled ECL] in a near-term recessionary event.

On capital, our Q2 ratio is above the middle of our range, at 13.6%. We expect the RWAs associated with the over-issuance to roll off in the third quarter, and that will more than pay for, in capital terms, the additional buyback, [and thus we expect] to see a net positive between those two.

As a reminder, our [RoTE] guidance of above 10% [equates to] around 150bps of capital generation per annum, so we feel that we have got enough capital momentum to deliver attractive returns, invest in the business, and maintain ourselves at an appropriate [CET1] ratio.

As mentioned in the call, we have made really good progress on the over-issuance matter. When I was standing here at Q1, we had a lot to do. We have refiled our 20-Fs. We have a new shelf up and running; that is a WKSI shelf. We have started our rescission offer and we are well progressed with our discussions on the SEC, and that was why we were able to recognise in the quarter our best estimate of where we believe that will close out. We are really pleased to have reached this point. It feels like we are moving ahead from this matter now, and very importantly, putting it to bed for our investors.

Finally, we highlighted two really important transactions in our results. The first was the successful onboarding of Gap. $3.3bn of balances; over 9m customers. A huge operational undertaking, and [we were] very pleased to see that land successfully and it gives us a great base to go from here in the US. The second is that we have agreed, subject to regulatory approval, to acquire Kensington Mortgages. Our objective there is to broaden our capabilities. It is a relatively small portfolio for us, and it is all about the capability that it brings. We expect, if we were to get regulatory approval, that would complete either in Q4 of this year or early next year.

I am going to pause there and take your questions. We will run the meeting as has become usual over many years, and we will just keep going round the tables until we have answered all of your questions. We have also got a dial-in as well, so we will try and take some questions from the phone.

Omar Keenan, Credit Suisse

I am going to ask a bit of a difficult question maybe, or maybe it is really easy. I wanted to ask how you are thinking about the RoTE target? We have seen a number of UK banks [this] reporting season increase their RoTE targets. We saw HSBC go to above 12%, we have seen NatWest go to 14-16%, and a lot of that is to do with higher interest rates.

I guess Barclays is still at above 10% and you are promising to deliver above 10% this year, with high L&C charges, so I wanted to ask how you are thinking about that 10% in a high interest rate environment, and how you are thinking about, potentially, other things that could go wrong next year. Obviously, FICC is great right now but might not be next year, so how do we think about how that 10% evolves?

Anna Cross, Group Finance Director

The [">"] that goes along with that 10% is important, so it is greater than 10%. That is where we have been for some time, that is where we are targeting ourselves. We have not been more specific than that in the context, I guess, of the complexity of the Group. You can see that our UK bank is well above 10% at this point in time; it is actually in the upper-teens. That is comparable to some of the businesses that have actually called out a much higher RoTE.

The things on our mind are the macroeconomic uncertainties out there. That can bring considerable benefit to us through FX, for example, and that obviously impacts individual businesses, but [we are] also very thoughtful about the fact that we have very strong income growth, and therefore we want to have the capability to invest behind that, if appropriate. We are being a bit cautious in terms of the specific guidance that we are giving out, but we remain confident in the capability of the business to generate more than 10%.

What I would say in relation to the FICC point that you are pointing out specifically, Omar, [is that] you are right [that] FICC benefits in a more volatile environment, but equally remember where Banking is right now. Banking is as low as it has been for many, many years; the primary market is completely shut. The reason it is shut is because of that same volatility. What you should consider is that whilst that volatility may reduce on the Markets side, we would expect at that point for there to be a return on the primary issuance side and the pipelines there remain strong. They are not moving but they are strong, so I would think about it in those ways. That is what we are trying to achieve, that diversification in the book in the CIB.

Ben Toms, RBC

In the inflationary environment we have got at the moment, can you talk about some of the cost levers you have that you may be able to pull on for next year, which might help keep costs under control?

Anna Cross, Group Finance Director

The cost levers that we have, and what I have talked about before, is that we balance our cost performance through three facets. We have clearly got inflation that will come and hit us [and] that inflationary pressure is clearly increasing. Against that, we manage two things. We drive efficiency programmes – there is a significant one underway in the UK that we launched in 2021, and you have also seen us take some action around our real estate. They are the big headline ones, but you should have seen from our Q2 disclosure that actually, there are more BAU matters going on. We are really driving that efficiency programme to moderate the impact of inflation and allow us to invest.

The [second] one is our investment programme and how we choose to flex that. Last year, that investment was very much focused on structural cost actions [and] there were also some actions to drive business growth. In the current year, what you have seen is us pull back on those structural cost actions but we have kept the business growth growing. The timing and quantum of the investment that we make in the business is also extremely important.

The third lever we have is performance costs. We are not mechanistic about it but clearly returns are the driver of performance costs. To the extent that the returns are there for the business, you would expect us to pay for them. To the extent that they are not, you will see those costs coming down.

Those are the broad levers that we use. I would also say, however, that whilst we are seeing income growth, we will invest behind it. As we do so, expect us to be very disciplined, and we will invest behind the three strategic priorities that Venkat has talked about around consumer, sustainability in the CIB and the [transition to a low-carbon economy].

That is why as we have gone out and done those acquisitions, those bigger pieces of investment, they are very much focused around that strategic agenda. Perhaps things that are a bit more peripheral might get pushed back [or] de-prioritised, in the current environment.

Joseph Dickerson, Jefferies

Just [two questions], can you talk about the upgraded NIM guide for [BUK]? The contributor to that marginal upgrade, is that coming from the hedge? If I annualise the hedge performance in Q2, it is annualising about £1.1bn higher than H1, and I think you had about a £1.4bn hedge contribution last year. So firstly, is that predominantly from the hedge?

Secondly, can you discuss your Equities market performance? Because in USD terms, I think it was down 25% year on year, and there was only one other peer, that is Credit Suisse, that was down that much year on year. Could you discuss some of the drivers in the Equities business? Was there any impact to the Equities business from the structured notes matter and so forth that we should think about normalising back out in the future quarters?

Anna Cross, Group Finance Director

From here, we have discussed for a couple of quarters, we expect the pass-through [to depositors] to be higher. We have said that we would expect pass-throughs to increase as base rates rose. I guess that is no different to what you have heard elsewhere. You are right, our expectation is that the momentum in NIM moves from, if you like, product-driven to hedge-driven. What really helps us here is the fact that our hedge programme has been rolling mechanistically for a number of years, so we are seeing part of the hedge roll off. If you look back five years, that would give you a good indication of where it is rolling off from and rolling on to the current curve. That is quite a degree of momentum, and perhaps explains some of the differential that you are seeing in some of the guidance that you hear from across the street. That is what makes us confident in that number, and why we have guided up from here.

The mortgage market remains very competitive. We have seen muted pass-through [to depositors] to date [but] we expect that to increase. The product dynamic is still positive, but probably less so from here, and you will see the momentum from the hedge take over.

[On] Equities, it was down year on year, in dollar terms. There is nothing specific to call out. There are no significant one-offs in there and we remain broadly pleased with where that franchise is going. We think we are still taking client share and we do not look at it quarter by quarter. Occasionally, we will have a poorer quarter, like Q4 last year in FICC, and then you see FICC step forward again now. We try not to obsess about individual quarters and actually if we look at it over the half, or we look at it over a longer period, it is broadly where we would want it to be, actually performing really well.

On the structured notes, structured notes themselves is a really small product, so us being out of that market for a period of time does not have a material impact on that business. The nature of the market in the second quarter was not strong for that type of business anyway, so that is not what is going on there. There is no single event in there, it is just one of those quarters.

Rohith Chandra-Rajan, Bank of America

While we are on it, on the deposit beta, UK banks have told us pretty much universally that deposit beta is going up from here, having been very low, but there are still lots of surplus deposits in the system and probably not a lot of loan growth. From a purely economic perspective, there does not seem to be a lot of incentive to raise deposit rates. There is a sense there is a degree of caution as a result, being built into NIM guidance, so interested really, just to understand why you think deposit betas go up from here, apart from the fact that they tend to when rates move higher. So that would be the first one.

Secondly, back on the inflation point, you have highlighted a number of times that there are several business lines that benefit from nominal growth. I wonder if you could help us a bit more on that and just walk us through those individual lines, and help to give us a sense of scale on that as well, please?

Anna Cross, Group Finance Director

You are right, the industry is in a very different position from where it was in terms of retail funding versus rates being at this level. If I look back to pre-financial crisis when rates were higher, the retail businesses were much more reliant on wholesale funding and fixed-term deposits to secure funding for mortgages.

The industry is very structurally different from where it was last time round, when we were in this environment. Loan to deposit [ratios] are much lower. They were way above 100% and now they are typically 100% or below, so structurally, the industry is in a different position.

However, the offset to that is that customers are also in a different position. Back in those days, if you wanted to move your money from one place to another, you physically had to go to the branch, withdraw it, move it across, etc. Now, it is very easy to do and therefore you should expect, or we might expect, a more fluid movement of deposits than perhaps we saw. So I think you have got two opposing factors there and it is quite difficult to determine how they will level out, particularly in my mind.

This is not just about perhaps raising rates on things like Everyday Saver or Instant Access savings products. [It is] more about the movement of customer balances as rates widen because customers are incentivised to move those balances; it is easy for them to do it so you are likely to see a shift in the mix of savings across the industry. That is how I think about it. It may not be continually widening out on particular products, [but] more a movement from one product to the other. That is certainly what we would expect to see because the opportunity cost of doing that as rates rise is more significant. If you look at where fixed rate products are now or products where you lock in your savings for a little bit of time, there is definitely a margin there that we would expect people to react to.

Rohith Chandra-Rajan, Bank of America

Sorry, just on that, they have not reacted to it yet?

Anna Cross, Group Finance Director

No, not yet.

Rohith Chandra-Rajan, Bank of America

But I guess your argument is as that differential between your instant access and the timed deposits widens, there is more incentive [for them to move their savings from one product to another].

Anna Cross, Group Finance Director

I would say so. There is another factor going in the opposite direction so I am probably not helping you, but I am hopefully helping you understand how we think. The other factor will be [to] the extent that the economy is uncertain, people tend to not [put] their money [in fixed deposit schemes] because they will be a little bit more cautious. There are quite a few factors going on in there so let us see. We have never trodden this path with this structure to the industry, so it is quite difficult to call.

In terms of your second question about nominal growth, you are right, there are two ways to look at it. The first would be the particular products that have a fee associated with transactions, so you would see that in credit cards, in current accounts, you are going to see that coming through in the fee line. You are also going to see that on the corporate side, in [Transaction] Banking, so you are starting to see that momentum build there as corporates do more activity. They are the lines that I would pick out in particular.

The other area is our Payments business. If you look quarter on quarter, that Payments business is now ticking up simply because it is exposed to the nominal flow of economic activity in the environment.

The other areas that you will probably see it coming through - you will see a bit on the CIB side more broadly in terms of businesses reacting to the volatility and those [rate] increases. So whether in Corporate or in the Markets business, you are going to see some movement there and again, that would particularly be in FICC where we see that kind of volatility. But predominantly, it is going to be in the transactional businesses that relate to retail or corporate activity, so cards, both types, Transaction Banking, Payments is where you will see it.

Rohith Chandra-Rajan, Bank of America

The other thing you have mentioned before is FICC financing, can you give us a sense of scale of that business?

Anna Cross, Group Finance Director

We have not disclosed the financing scale, within either FICC or Equities. It is fair to say it is something that we are thinking about because we do think that it is an important factor. I will not throw a number out here [but] I would say that that business continues to grow nicely. It is a business that we perform in very well, and therefore it provides some stability to that income line.

James Invine, Société Générale

In the answer to Ben's question earlier, you were talking about possibly flexing down investment spend as a reaction to rising inflation, but what might be the trigger to flex that up? The Group is becoming more profitable so you have got more capital to spend. The revenue environment is looking better so presumably the returns on investment are looking better. Is there a feeling that you are actually going to flex that number up and where do you put that in the Group? What is a project that today maybe makes sense that 18 months ago the Board would not have signed off on?

Anna Cross, Group Finance Director

I was kind of getting at that before, so we would invest in areas that we think are strategically important. We will do it selectively and not in a blanket way.

If you go business by business, in BUK, we are already investing: we set that investment off in 2021. You are not actually seeing the investment [benefits yet] because they are generating savings and they are reinvesting so that investing is actually happening within the existing cost base. The reason we are doing that is partly to make the business more efficient but also more effective. It is very much on digital fulfilment. We think that is a really important basis for the first part of our strategy which is that next-generation consumer business.

You see similar themes in CC&P where you have got a significant investment in the current year. We talk [specifically about Gap] but think about it much more broadly, because the capabilities that we have had to put down for Gap actually open up a different waterfront for us. They take us into the retail space which we have not really been in, in the US. It is as big a market as travel is, so think about that as a capability build. Some of the technology that we have built there, we will be able to take back into the travel business as well, into the airlines and entertainment businesses.

Those two [businesses], very much, are already underway. You are not actually seeing significant impact from those yet [but] you will from here on in. Those are already happening, already in the cost base.

In the CIB, we have been investing particularly in Markets, around electronification, and we have been investing for many years in our Prime complex. Sometimes you think you have set yourself up for a market event, so we have been investing and then a market event occurred, a number of our competitors stepped back, and that has given us the capability to take that on. We would not have got it if we had not invested upfront.

You are not going to see any dramatic changes. I would argue that the things that we want to invest in are the things we are already investing in. [You can] expect increased focus on those things in an inflationary environment, because we will become more discerning.

There are some areas where you might expect us not to invest in the current environment, where we would also think it is important, and I would specifically [highlight] Banking. Whilst the revenues at this point in time are low, we are going through a cycle and we have been investing in particular sectors, and we would continue to do so. So Biopharma, Technology, etc. Again, it will not be a blanket investment; it will be a very, focused, targeted investment. I agree with you, we have got a top line and therefore we will invest to secure and develop that, but expect us to be very focused on jaws.

Andrew Coombes, Citigroup

My first is going to be a follow-up [on] Joe's question. I appreciate that you are looking at trends on both Equities and FICC revenues over a longer period of time, but so many investors are looking quarter to quarter. So keen to push you a bit more on the trends, both in Equities, where you are an outlier - anything you could say on Cash versus Derivatives versus Prime? Also, anything you could say on your US retail structured product issuance being halted. How much of the drop is explained by that and when that resumes?

Second question, you are also an outlier on FICC but in a good way. It looks like you had a record quarter for Macro. Is there anything you would draw out there?

Anna Cross, Group Finance Director

On Equities, I think I have said all I am going to say to be honest. There is really nothing particular in there. There is nothing that concerned us in terms of the client wallet movement, there is nothing that concerned us in Prime. Cash equities, I think, were a bit weaker across the market in general, just because there is [lower] primary issuance, but nothing specific.

Structured Products really is not a big business for us, and it really was not a big business market-wide in that quarter, so that is definitely not the answer. If we have not started already, I would expect us to start post the rescission offer going out. So I am sure we can come back to you on that specific timing.

On FICC, if you consider the environment that we are operating in, for all of our clients, they are seeing monetary policy change across pretty much every major global economy, and that drove client volume in Macro across pretty much every desk. It is FX, it is Rates, it is Emerging Markets, it is everywhere, and it is client flow, very strong client flow and we are very pleased with that. We think that it is a continuation of a theme that we have seen.

I would say that to try and understand perhaps the difference between us and others, it is difficult to tell. We do not disclose a huge amount and neither does anyone else. What I can say about our Credit business is that we also saw fairly strong flow but we positioned ourselves defensively in that business, and did so from the back-half of last year. That may be the differentiator but we will see, I am sure, in the future.

We are not big in Securitised Products, not as big as some of our competitors; that may also be an explanation. The standout is Macro within FICC and the standout is from client flow. It is volume-driven, it is not margins, it is not risk, it is volume.

Andrew Coombes, Citigroup

My completely unrelated question is going to be on the structural hedge where you have seen a huge increase in notional. How much of the balance is left unhedged? Is there any ability to increase that notional size further going forward?

Anna Cross, Group Finance Director

We do not disclose the unhedged amount. However, if you looked at how much our deposits have grown and how much we have grown the hedge by, that would give you a good indicator of, broadly, how we think about it. That is probably the best guidance I can give you.

We monitor that behaviour across our deposit base very carefully. We are looking at signs of rate insensitivity essentially, and we have been cautious about how we have built the hedge, and we have built it in different businesses at different speeds.

We are essentially trading off the security of income now with the ability to widen margin. We think it was the right thing to do to increase the nominal on that hedge but we do so very carefully with a lot of thought behind it.

Adam Teralek, Mediobanca

Lots of focus on [BUK] NIM, but I wanted to go outside the UK on rates. Clearly, CC&P was a strong print. Transaction Banking is a strong print. I want to know what the NII sensitivity is there. Clearly, [there is] a big deposit book in the Private Bank. You have got Transaction Banking deposits that should have a bit of sensitivity as well. So we have focused on [BUK] NIM but what is the upside outside the UK?

Anna Cross, Group Finance Director

We have seen some upside outside the UK. One of the reasons that we do not call out a simple pass-through is for exactly the nuances you are calling out. You would expect that from the beginning, the pass-through in Corporate and in Private Bank has been an awful lot higher than it has been in retail. That is given the nature of those customers. If you think [about] a corporate, they are typically multi-banked, so that is a really important thing for us to do.

The impact of rate rises is not as significant as a product matter for those businesses as it is in retail. There is a tailwind, but it is nowhere near what you are going to see on a retail book. However, they do benefit from the structural hedge in exactly the same way, so they get a rate-driven tailwind from the structural hedge in exactly the same way as retail does.

Adam Teralek, Mediobanca

And is the Private Bank a bit more sensitive than the corporate stuff?

Anna Cross, Group Finance Director

I would say it is similar. Pass-throughs there have been pretty high.

Raul Sinha, JPMorgan

I have a couple of questions, the first one is on the RWAs. Obviously, the CIB had seen quite a significant increase driven by market risk, and you have got FX-related growth all over the bank. I am just trying to understand where we should think the medium-term RWAs or the mix should lie? It looks like it is skewing towards CIB and CC&P, so is that shift likely to continue? Could you perhaps give us some sense on the moving parts from here, especially in the second half?

Secondly, just more broadly, one of your peers talked about low impairment charges next year. I was just wondering, obviously your guidance relates to the coming quarters, if you have got any thoughts on the resilience of your book, and whether or not you might feel similarly comfortable about having below normalised provision charges next year?

Anna Cross, Group Finance Director

We have seen increases across the full half, on RWAs, on the wholesale side. I would say that is coming from three things. The first is clearly FX, which has little to no capital impact overall. The second is, do not forget that on 1st January we had those regulatory changes, so that has bumped up the RWAs further. The third piece is business growth. I think from memory, the number is about [£30bn], and the business growth is [c.£10bn] or less within that by the time you take the other two factors out. So the [components of that] business growth are slightly different in the two different quarters. In Q1, I think market risk fell and then went back up again in Q2, just because of the volatility that we have seen, and some client volumes, but net-net, I think across the full half, market risk was broadly flat.

We have seen some increase [that is] balance-driven. That is almost entirely investment banking, investment-grade, existing clients, existing facilities, so nothing concerning within there. Certainly those increases were much less than what we saw during COVID or at similar points of uncertainty, so there is nothing that concerns us. If anything, we see it as a positive move of a sign of economic activity, and as I say, it is with investment-grade clients. That sort of explains what has happened.

From here on in, we do not have hard-and-fast RWA allocation rules that we want to follow. If anything, that would fly in the face of what we are trying to do as a diversified bank. We are trying to step into opportunities as we see them. Having said that, growth from here is more likely to be [from] consumer recovery, where you are seeing that come through, whether that be the US, or hopefully the UK. A recovery in cards, [would therefore lead to RWA growth as] obviously cards are a bit more RWA-heavy than the majority of retail.

CIB growth from here, if you think about what we are focused on, or the things I have called out before, whether that be Prime or the specific parts of Banking, that is not particularly RWA-heavy growth, so I would expect to see a rebalancing. However, we do not have hard-and-fast rules around that, and we will be reacting to the opportunities that we see, but nothing concerning at this point in time.

In terms of impairment from here, [it is] very difficult to call. I guess we have more conviction around the nearer quarters than we do the outer quarters. It is very difficult to give anything specific. I would say if you consider the reasons why we have given that guidance, it is in part because of the macroeconomic outlook that we see. If you look at consensus, it is clearly quite benign, inflation aside.

We are also not seeing any change in the performance of our book, in retail or in wholesale, so the watch list is low, delinquency is very low. It is partly these external factors, but it is also what we have internally around the coverage levels that we have.

[Additionally], if you look at the structure of our book, it is really different from where it was pre-COVID. [It is] much more biased towards secured versus unsecured lending. So normalising to what, is quite a tricky question really. We will continue to guide. We feel like we are as well set-up as we could be and there is nothing I would call out in the short term but we are in quite an uncertain environment.

Perlie Mong, KBW

If I look at [your] cost: income ratio, probably in the last 3-4 years, it has sort of hovered around [mid-60%], and you have been targeting <60% for a period of time. But actually as you have noted, there is a lot of work going into that, [and] more tangibly, the UK workforce is down 12% and Asia up 10% in the period. So when is that cost benefit, as it were, going to come through in the numbers? Obviously, noticing that you are going to reinvest, but at some point you would hope that the cost: income ratio would, at least in the targets, start to come down.

Secondly, I did not think I would have to ask it, but as I was walking in I saw in the lobby that you have set up a subsidiary in Taiwan, and obviously it is a very fast-moving situation over there, so anything we need to worry about at all?

Anna Cross, Group Finance Director

In terms of the cost: income ratio, we feel like we are making progress. Clearly, we did not expect an inflation level quite as it is today, so much of what we are doing in efficiencies is counteracting that inflation as opposed to [it] dropping through. Having said that, if you look at what we disclosed for the half-year, you can see I think we got to about 62% on an operating basis. We feel that that does indicate that we are making good progress, Perlie, so we are quite happy with that. But in the current environment, and by that I mean our revenue momentum, we think that is just as an important part of that cost: income ratio story as the cost part. Clearly, we will work on costs, but we are just as focused on investing to drive that sustainable revenue.

We still think it is really important and it is why we have got the BUK transformation programme out there. It is why we continue to invest heavily in retail, because we believe that gives us a very annuity-based income line, which is good for that cost: income ratio. So I think we are happy with our progress. Over time, you are going to see that drop through, not just because of BUK, but there will be other businesses in the Group where you would expect us to keep that investment momentum up. So whilst [the target] is less than 60%, you are going to see it differently in different parts of the Group, depending on where we feel we want to invest.

As it relates to Taiwan, it is very early days. It is not a significant business. We are clearly very watchful. I would not say anything more than that. It is not a significant part of our business.

Ian Gordon, Investec

Just following up on your earlier comments on Kensington, a bit more colour, please. Why Kensington, why now, why go the M&A route, given that it is a capability acquisition? Can you give some scale of ambition, and are you signalling a limited appetite for portfolio acquisitions?

Anna Cross, Group Finance Director

We expect to purchase about £2bn worth of balances, and the total acquisition cost will be around £2.3bn. Why we are buying it, I would say, [is for] two reasons. The first is their risk capability around complex incomes. That is very important because we believe that is a part of the mortgage market which is not well served by mainstream lenders, us included, and actually is an increasingly common factor in what we see, societally. We think it is an important capability for us to have. They have a lot of data, a lot of capability and a lot of history, and that means something.

The second thing would be their strong relationships. Remembering that the UK mortgage market is 80% intermediated, those strong relationships are really important in running that type of business. So whilst it is a capability that we could have built organically, it would have taken a long time. That is the trade-off that we made.

So we do see it as a capability acquisition. If you think about the scale of it versus the £160bn that we already have, it is not actually a big portfolio, so it is really all about that capability, and their ability to manage that complexity. We are a vanilla mortgage lender, so it is really exciting for us.

What do we also get from it? We obviously have a funding advantage versus where they are now. I would say the other thing from our perspective, [is that] we operate a single brand in the mortgage market unlike many of our competitors. This now means that we would be operating with more than one, which again is attractive. We think it is a capability that we will scale from here. We will do so very carefully. It is clearly a different market, but you would expect us to have the same risk discipline that we do now.

Chris Manners, Head of Investor Relations

We have a question online from Chris Cant from Autonomous which I will read out:

You give parallel shift sensitivity to rates, but the market is pricing a flattening of the curve with a short-end rise rather than anything approaching a parallel shift. To help us think about the dynamics here, could you please give us a sense of the volume of managed margin deposits that you have? By which I mean the proportion of the book which is not part of the structural hedge and is subject to the debate around deposit betas. Trying to back this out, I get to £120-125 bn. Is that a reasonable estimate?

Anna Cross, Group Finance Director

It is quite similar to the question that we had before. We will not call out the unhedged portion, Chris, but if you were to look at how we have moved the hedge versus how the deposits have moved over the last year or so, you are going to get very close to the right kind of proportion.

One of the reasons that we have extended our hedge is our confidence in the behaviour of it. I would say that, in terms of the shape of the curve, we are typically hedging at around the three-year mark, that sort of range. So if you want to model the dynamics, that is what you should be looking at. We roll about a 60th of it off every month, so that should help you understand how it will flow through. Chris, anything I have missed there, or can you just repeat the question for me?

Chris Manners, Head of Investor Relations

Yes, I do not think you have missed anything but I think the question was basically, out of your deposits, how much is not hedged? So what is managed margin, basically what will be the base subject to deposit beta?

Anna Cross, Group Finance Director

Okay Chris, hopefully that helps you. We will go to the next question now.

Omar Keenan, Credit Suisse

I also wanted to follow up on the deposit beta question. One of your peers, NatWest, I think somewhat surprisingly told us that they were actually experiencing lower deposit beta [on] their commercial deposits than on their retail deposits, and I think they have told us in the past that their commercial book was more managed rates, which I think is different to the vast majority of Barclays' corporate exposure, which I understand is more linked to SONIA market interest rates.

Can you give us just a little bit more colour on what you think the nature of the difference is between the corporates that Barclays might have and the corporates that NatWest might have, and why there is such a big difference in terms of market practices on deposit rates?

Anna Cross, Group Finance Director

Well, without knowing their book, that would be an almost impossible question to answer, unfortunately. I am really sorry, I do not think I can draw that distinction. All I can tell you is that typically we would expect a higher pass-through with corporate customers, and that is what we have sought to do.

Omar Keenan, Credit Suisse

That is what I would have expected as well.

Anna Cross, Group Finance Director

Sorry, that is probably deeply unhelpful, but without knowing the nature of their customer base, it is quite difficult to answer.

Perlie Mong, KBW

On the UK side, [we are] finally noticing a bit more credit card balance growth this quarter, which is obviously very encouraging. What is the underlying trend and to what extent is that [from a] mix shift? I know it is not large numbers, it is £0.5bn or something, [but] to what extent is that going to be part of the NIM guidance and the upside that it is going to come from?

Anna Cross, Group Finance Director

We have seen balances stabilise. I think the nature of those balances is different to what it was before, and I would expect it to be different [on an] ongoing [basis]. The reason I say that is probably threefold.

The first is that customers are purchasing but they are paying back very quickly. That is true in the UK and in the US. That is exactly what we would expect them to do in this current environment, and we would be happy with that behaviour. Given the economic uncertainty, that feels like a good risk matter. So repayment rates remain very elevated, that is true all the way across risk bands. That is number one, so whilst balances may be going up, your interest-earning balances, not so.

The second thing I would say is that we are back acquiring out there in the market, so we have seen a flow of new customers onto the book. We have probably been slightly more cautious going back into that market than some of our competitors. We are very returns-focused. If you look at where we have positioned ourselves, it is not at the top of the table. We are much further down in terms of [balance transfers].

The third thing I would say, and where we are really happy, and you can start to see it in the fees, is the launch of non-lending products, a business that is more focused towards spend.

So I would say balances going up, it is not going to be a big NIM-kicker in the short term, but I do not think that is the wrong thing in the current risk environment. It is a good leading indicator for what might come as, hopefully, the economy normalises and picks up. So we feel like we are still seeing the right signs coming through.

Let us close it there, lovely to see you all. I hope you all have a wonderful summer holiday and it looks like some people have already gone, because we are missing some folks, but have a great time. We will see you in what is always a comparatively short period, it will be September before we know it. Have a good time and we will see you soon.

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