# Barclays pivots to UK retail banking but growth hurdles remain amid cautious lending



Barclays chief executive C.S. Venkatakrishnan has positioned himself as a prominent advocate for the economic potential of the UK and a supporter of the government's growth initiatives within the City of London. However, translating this optimism into tangible customer engagement has proven challenging.

The bank's first-quarter results reported a boost largely attributable to a rise in investment banking revenue, consistent with expectations. Venkat, as Venkatakrishnan is often called, has outlined a strategic emphasis on expanding Barclays’ domestic banking and wealth management segments over the longer term, signalling a shift from focusing predominantly on investment banking.

This strategic pivot aligns with the bank’s performance metrics. Despite the investment bank’s robust first-quarter return on tangible equity of 16.2%, this figure remains lower than those recorded by Barclays’ UK-focused segments. Consequently, directing resources towards domestic operations, where returns appear comparatively stronger, is logically sound.

Yet, Barclays faces significant headwinds in expanding its UK market footprint. Economic conditions across the UK currently reflect limited growth momentum, evidenced by a contraction in net lending nationwide over several years. Efforts to increase lending to small businesses, for instance, confront broader market reluctance, as demand for borrowing remains subdued.

Midway through its three-year strategic plan, Barclays has achieved approximately half of its objective to add £30 billion in UK-based risk-weighted assets, largely through the acquisition of Tesco Bank. Progress from organic growth has been slower, underscoring the challenge of expanding the bank’s domestic portfolio at a time when the wider economy is decelerating.

Mergers and acquisitions emerge as a potential avenue to accelerate growth. Barclays has previously considered acquiring Santander’s UK business, which would elevate it to the largest mortgage provider by market share. However, such a deal risks regulatory scrutiny. Alternatively, Banco Sabadell’s TSB presents a smaller but still strategically valuable target. TSB’s £36 billion loan book, more concentrated in low-deposit mortgages, aligns with Barclays’ growth ambitions in this sector. Given the current takeover battle between Sabadell and BBVA, there is speculation that Sabadell might divest TSB, potentially simplifying acquisition discussions.

Acquisitions carry inherent risks, notably illustrated by TSB’s problematic IT system migration under Sabadell’s ownership that adversely affected customer service. Nonetheless, the prospect of a willing seller could enhance the appeal of such deals for Barclays.

Despite these challenges, Barclays currently trades at a consistent discount in price-to-book valuation terms compared with other UK-focused banks like NatWest and Lloyds. The bank maintains that acquisitions are not essential to meet its growth targets, projecting an acceleration in lending growth founded on momentum gained from earlier purchases. Yet, demonstrating tangible progress in the near term will be critical for Barclays to narrow this valuation gap.

The Financial Times is reporting these developments surrounding Barclays’ strategic outlook and market positioning amid the evolving UK economic landscape.

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

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6. <https://home.barclays/news/press-releases/2024/11/completion-of-the-acquisition-of-tesco-s-retail-banking-business/> - This press release announces Barclays' completion of the acquisition of Tesco's retail banking business and the commencement of a long-term strategic partnership with Tesco, aligning with Barclays' strategic emphasis on expanding its domestic banking and wealth management segments.
7. <https://www.ft.com/content/2587fd3c-9035-4280-99a8-c15d94cd5a1e> - Please view link - unable to able to access data