

**Barclays PLC Q4 2022 Results****23 February 2023****Analyst meeting transcript (amended in places to improve accuracy and readability)****Anna Cross**

We were pleased to report that our diversified business model had produced double-digit RoTE for the second year in a row, with all operating divisions also at double digits. And as I said on the day, we are targeting a RoTE of over 10%, in 2023. We also announced a total capital return in respect of 2022 equivalent to 13.4p per share, or £2.2bn, as we balance investing for growth with returning capital to shareholders. Income was up £3bn, or 14%, in 2022, and we continue to see broad-based momentum across all of our divisions in higher-quality recurring businesses.

Just going through them one by one, on BUK, we expect income growth with NIM expected to be above 320bps this year, and I'll make more comments on that shortly. On CC&P, you can see strong growth here and we believe that there is good momentum across all three businesses within CC&P, notably with absolute growth in International Cards of £800m in 2022.

On CIB, we made really good progress in recurring income streams like Transaction Banking but also in financing, which was up £700m, year on year, and whilst we acknowledge that the market might expect a [strong] decline in markets revenues through [2023], we believe that, given the strong base of financing and given the strong market share gains that we have, it makes us more optimistic for the future.

On costs, the total for the year was £16.7bn statutory, as we'd guided in the middle of the year. 2023 dynamics will vary by business, with growth opportunities and attractive returns more concentrated in CC&P and CIB. For 2023, we are targeting a cost-income ratio in the low 60s, as we continue to make investments in the franchise and as we progress towards our longer-term target of below 60%. And I will remind you that is a statutory number.

Turning to impairment, the charge for the quarter was £0.5bn, or around 50bps [loan-loss ratio]. Coverage ratios are strong across the piece. Given the current macroeconomic environment, we would expect the loan-loss ratio to be between 50-60bps as we've previously said, closer to the historical levels. That clearly is dependent on both the mix of the business and indeed the macroeconomic environment. It does appear to be some way below the pre-results consensus that we have compiled.

On capital, our CET1 ratio in the fourth quarter was 13.9%, up 10bps quarter on quarter, and we announced a £500m buyback and a 5p full-year dividend. Looking ahead, we'd remind you about some capital impacts in Q123, which totalled broadly 40bps, including the buyback, IFRS 9 transition release, and the acquisition of Kensington. We have also given some updated guidance on Basel 3.1. We'd previously guided for 5% to 10% of RWAs, we are now guiding towards the bottom end of that, pre-mitigation. Our CET1 ratio [target] remains 13% to 14%.

Now, given the level of interest in BUK NIM outlook, before I go to Q&A, I wanted to summarise some of the comments I made last week. We see the BUK NIM building through the course of 2023 and are guiding to over 320bps for the full year. The reason for this is primarily the ongoing benefit we get from the structural hedge, given the roll-through of higher swap rates.

We do use a peak of 4.25% of [the UK] base rate in our outlook, but I'd remind you that, in the medium term, base rate rises are less meaningful than the ongoing evolution of the structural hedge. And I'd just remind you that that is enduring and should provide a multi-year benefit. We believe we've been conservative in considering the product dynamics in our outlook, and I would also remind you that some of the other effects we noted in Q4, for example the negative effect of certain treasury items, will dissipate.

Lastly, I wanted to remind you that we are very focused on delivering strong returns and capital returns to shareholders, but we also see attractive opportunities to invest in the business and balancing these priorities will make us stronger in the long term. I'm going to pause there and take your questions.

**Omar Keenan, Credit Suisse**

I had two questions. My first question, please, is on capital. You called out the 40bps that the market already knew about that takes the ratio down to 13.5%. Going forwards, through the year, can you talk about the priorities for the capital generation? I think you talked about opportunities for business growth in the first quarter, is that to do with growth in the investment bank? Is there also any bolt-on M&A or anything like that that you're looking at?

And then my second question was just on your comments on Markets. And as you said, consensus expects Markets to come down, but the outlook that you gave seems more optimistic than that. Are the bottom-up headwinds on the market share gains in Prime, and also in other parts of the business, so strong that it gives you confidence even with a moderate reduction in volatility, because that just seems a bit of an unknown to me, through the course of the year. Maybe we'll stay in a good trading environment, but what gives you the confidence that we won't see a big tail-off in rate volatility that has benefited last year?

**Anna Cross**

Okay, so let me start with capital. What you should expect is that we operate across our range. Because as we make decisions around investment and around capital returns to shareholders, we're considering not just where we are at that point in time but what we subsequently expect to happen. What I meant by Q123 is there's a natural seasonality to the Markets business in particular that we wanted to put, candidly, some RWAs behind. It's seasonally stronger in the first half of the year, and the first quarter in particular, and on that basis, you would expect us to put capital to work in that environment. We do it every year. So, we would typically expect Q1 to be our capital low point and accrete from there.

In terms of investment opportunities, I clearly wouldn't talk about bolt-on M&A here. We've clearly disclosed Kensington, and we expect that to conclude in the first quarter. We have, however, continued to invest in both CC&P and in the CIB. I think last year, in CC&P, there was clearly quite a step-change in that investment because of GAP. You might expect that to moderate a bit from here on. In CIB, it's more of a constant theme just because of the nature of that business and the fact that we're trying to build it out in different but selective parts.

The other thing that's obviously on our mind is, and I've said it on the call, we're not in a benign environment, and whilst we don't see any signs of pro-cyclicality, we are clearly watchful for it. So that's kind of how we're looking at capital as the year progresses.

In terms of your second point on Markets, really the headlines we're trying to get across are twofold. Everybody thinks that Markets is a big, volatile thing. What we're trying to say in our disclosure is clearly it's a very complex business but there are two broad streams within that. There is Financing, which is inherently more stable. So, we're trying to get across the fact that even if volatility were to subside, there is a core within there which we would expect to be less volatile, and you can see that we have grown meaningfully. And part of that is actually rates. We've been saying for a while that rates doesn't just benefit the retail side and the corporate side, it actually has benefits in the Markets business. And you're seeing that in that number.

The other thing is more broadly, across Markets, we have built our market share, and again I think there was a perception out there that that was purely because of a particular European competitor. You can see from our disclosure that that's not true. Because we've been investing in a very targeted, thoughtful way, we have built market share across a number of streams, and that's allowed us, we feel, to create a broader franchise.

So even though volatility does subside, we believe we'll be left with a bigger business than we would have done otherwise. So, I guess what we're trying to get across is if you're looking at what's normal for our Markets business in a low volatility environment, we would expect that to be different from the pre-COVID period I think is what we're trying to get across. The other thing I'd say is the exact environment that would bring Markets down we would expect also to bring Banking back.

**Alvaro Serrano, Morgan Stanley**

I had a question on deposits and margins, but actually I'll keep it to Transaction Banking. You obviously had a very strong Q422 once again. We're seeing a lot of deposit outflows in corporate, and you've seen some as well. If you can give us a bit more colour, is that sustainable and should we build on that, or are we going to see some of the effects that we've been debating this results season where, if you lose more deposits or it becomes more competitive, you will get some of that back? Obviously, we're almost at the peak of the rate cycle. Just some colour on what happens if there are deposit outflows there.

**Anna Cross**

If you look quarter-on-quarter, you can see a bit of movement in corporate. I think the average balances, quarter on quarter, were probably a bit stronger than that year-end position would indicate, so there's a bit of seasonality in there, we think. There's also a bit of FX. I think the thing I would probably call out more than that is we have seen quite strong migration within corporate.

I think it's exactly what you'd expect, because typically corporates are multi-bank, you've got a treasurer there optimising the deposit position. So, you will have seen that we reduced the size of the structural hedge by £3bn, quarter on quarter, that is relating to wholesale deposits, because of the migration period. And so, what we've done is we've paused the roll to preserve the buffer that we have that takes account of that volatility. So, I think it's more of a migration effort. We have seen that happen.

Now, behaviourally, what do we think will happen from here? It's difficult to call, but we've been probably quite surprised by the speed at which retail migration has happened, it's been quite slow. You'd probably imagine that corporate migration is faster, so I think they've been faster off the mark. So, do we see a greater movement from here? I wouldn't have thought so. I would have thought we've seen that really early activity.

**Alvaro Serrano**

And the second one was about Corporate Lending, I think we touched on this on the call. Now, a couple of months into the year, it does look like credit spreads have tightened significantly. Can we go back to your run rate in that line at some point this year, or is there still a lot of wood to chop beyond single names?

**Anna Cross**

Yes, there are a few things in there. Some of the things in there which are a bit of a drag, are going to be enduring. So let me unpack it. The Corporate Lending, you will have seen over time, it's got to a level and then sort of stabilised. That isn't meaningfully different. However, what we are doing is we are doing more SRT, so we're doing more first-loss risk transfer.

We're doing that in part because of the credit environment, so you've seen that we've stepped that up, we've disclosed that, but it's also about capital efficiency and effectiveness across the group. So, what it does is it allows us to release RWAs from corporate and recycle them into other parts of the balance sheet. So, although you see a hit on that line, it actually creates balance sheet efficiency. I'd expect that to endure. So don't go back to completely where we were, there's going to be a permanent nudge down because of that impact.

There are then two other things, I think, that are probably more temporary. The first is obviously marks. Having a year with zero marks is probably unlikely but having £335m that we called out is certainly elevated. So, you might expect a degree of normalisation there.

Then, the last piece is the hedges associated with that leverage lending. In the current environment, we have reduced our appetite for stress loss, and therefore we have put on more hedges, and those hedges are more expensive. So that's another particular atmospheric point that would have a somewhat, I would say, less permanent impact on that number.

So don't go back completely to where we were, but that drag that you're seeing is directly related to the health of the LevFin market. So, when we see that come back and that banking environment, more holistically, normalise, that's going to tail off. When that happens is quite difficult to call.

**Jason Napier, UBS**

Can I just confirm that you said that you thought NIM in the UK would rise through the year, progressively?

**Anna Cross**

Yes.

**Jason Napier**

So that's at odds with what we've heard from two of the peers. At least mathematically the exit run rate for 2023 has got to be below where we started the year. And I think in your own fourth-quarter bridge, the benefit from the structural hedge was equal to half of the other headwinds, so already you weren't showing NIM momentum excluding the treasury mishap. So, I wonder whether you could talk about what it is that gets better in 2023 that allows the NIM to actually increase? And if you'd be willing to offer a view in what way Barclays is idiosyncratically better positioned than the market, that would be helpful as well.

**Anna Cross**

Yes. You're right in that we are in a very competitive retail environment, and that's what we're talking about here, just our retail book. Mortgages is a commoditised product, so we're not going to face different expectations to everyone else. Savings, as you look around the piece, the rates are not materially different, so those impacts, I would expect to be broadly the same.

We are hedging, I would say, probably, proportionally more than our peers, and if you look at our structural hedge contribution, relative to where the others have been and where they've shown on their bridge, I think it's higher, and we would expect that to endure. I think that's the first piece.

The second piece is we have called out that there are some quite idiosyncratic treasury items, that whilst we might expect to see them in Q123, but they'll be more stable, they will then go in the opposite direction as the year continues. So, I'm putting all of those pieces together. I think the retail piece, this is a very competitive, commoditised market, so that's not going to be different. I think it's about the hedge strategy.

Remember, we have consistently hedged in a very, very mechanistic way. Month after month after month, for years. We have not put it on, taken it off, put it on, taken it off. It's just mechanistically pushing out a number. So, I think it's in the hedge.

**Jason Napier**

And then I'm sorry to labour the point on the treasury piece, but just so I understand it, when you say that the treasury pressure is noticeable again in Q123 and then changing in the latter half of the year, is it a negative quarter-on-quarter move in Q123 and then positive later in the year, or it's a drag that's no longer there, quarter-on-quarter in Q123? If you could just explain about what you expect on that piece alone.

**Anna Cross**

I don't expect it to intensify in Q123, so I'd expect it to be probably quarter-on-quarter neutral, and then, thereafter, I would expect it to improve. That's my expectation. Now, I clearly have better line of sight on the hedge and the treasury stuff. What none of us really know, which is the caution that you're hearing from everyone, is around the product dynamic.

**Joseph Dickerson**

I guess the key question I have is when we look at the unsecured business, both in the UK and the US, the UK is very much an organic grower, I would have expected, at some point last year, that balances would have picked up, and if you look at the BoE data and the results of yourself and others, the BoE data had some of the highest repayments ever in card balances. So, I guess what's your thought process on when unsecured lending returns in the UK, and what it takes?

And then, in CC&P, there are quite a few retail card portfolios that are going to come up for renewal in the back end of this year, and how are you thinking about your appetite for opportunities on the card portfolio side in the US in CC&P?

## **Anna Cross**

In the UK, balances are stable, slightly growing. It's interest-earning balances really that have stepped backwards, and that's, I guess, the surprise. I think there are two things that will move that dial, and I think it's about sentiment, actually.

As we look across UK customer sentiment, it is cautious. It's cautious in mortgages, it's cautious in savings, it's cautious in cards. Repayment rates in cards are higher than they were in COVID. So, I think that's one thing. We have to see the confidence of customers turn to a point where they are happy to extend themselves in an unsecured environment.

I think the second thing is we, and others, if you like, lent back into the promotional environment after COVID, that takes a while to mature and flow through. You're adding a vintage and it takes a few months to then become interest-earning, so I think there's a bit of that as well, there's the kind of maturation, if you like, of promotional balances.

There's also another piece for us, which is by design. Our feeling was that the cards market in the UK had become somewhat dominated by a single product, which is zero balance transfer, and therefore we have sought to rebalance our acquisition with other types of cards, so a card that's a bit more of a spend product, looks a little bit more like what you would see in the US. So, it's a fee-based product, so you're not going to see substantial NIM, and then they get rewards. So, it's a spend-and-repay card. So, there are going to be some balances that will build within our UK cards book that will be more fee-based than NIM based. So, part by design.

## **Joseph Dickerson**

The Avios card?

## **Anna Cross**

That's the Avios card. The US is completely different. The customer sentiment is completely different. They are much, much more confident. And so, whilst repayment rates remain very high, they are starting to borrow, so we're seeing organic growth there, and obviously we added GAP and AARP before that.

I think we would expect to see that organic growth continue. There's obviously been quite a sharp recovery, post-COVID, so it may moderate a bit, but we'll see it continue. We were very focused on GAP, and we want to see GAP bed down, just because of its scale. Although it was £3.3bn of balances, it's actually pretty much doubled our customer base, because the average balance is much, much smaller, because of the nature of the card. And therefore, as a piece of operation learning and technology deployment, it's a thing that we want to see doing well before we take another big bite.

We will always look at stuff that comes up. It will be dependent on the particular returns that we think we can get out, but we look at each partner individually. So of course, we'll look at things, but GAP's gone very well for us. Operationally, it's gone very well, and the balances are growing, but we are very keen to ensure that we're learning, because it is a different departure for us.

## **James Invine, Societe Generale**

I've got two, please, on the CIB. The first is on your Equities business. That's a business that's done well over a number of years, so I was just wondering if you could explain the management changes at the top of that business, please? And then the second one is I notice in your disclosures it says that your CIB business was short the market for most of last year, which is something I don't think you've said in the past, so I was just wondering what that is, how big that was, and if it is still short the market this year?

## **Anna Cross**

The first piece, we are pleased with Equities. If you look at the raw numbers on the page for 2022, they are probably a little down on our competitors, year on year, but that's because 2021 was an absolute record year for us. And as we look at the two-year trend, so if you look 2020 to 2022, or 2019 to 2022, we feel that we bench as well as any of our peers. And you can see that in our market share growth.

So, there isn't any change in strategy, and I'm clearly not going to talk about individuals. All I would say is that it's a business that we really like, we continue to invest in talent there as we have done in Banking, in CC&P and across the

rest of the business. So, think of it as our ambition to continue to develop it rather than anything specific or idiosyncratic about its performance.

On the second point, and Venkat talked about this quite a lot at last year-end, so I'd really encourage you to go back and listen to what he said, which was we are in an uncertain environment. That was true then. It then became even more true the day after our results, which was the day that Russia invaded Ukraine. And so, we position our markets business so that firstly, it performs better in a downturn. And, secondly, that we were light our own inventory, which probably helped us.

So, we felt like that before the start of last year, and we positioned ourselves in that way. We haven't really changed that stance, simply because the environment remains very uncertain. We're coming up to the anniversary, who knows what's going to happen, so we remain positioned in that way. And actually, that benefited us throughout the year because of the market moves that we saw. So, it was the right decision. We feel like we managed our own risk well last year.

**Andrew Coombs, Citi**

Apologies for labouring this point but I want to come back to Jason's question. On the treasury mishap, or idiosyncratic element that you've drawn out, the messaging shifted around, so I just wanted to clarify. There's a 16bps, approximately, quarter-on-quarter drag in Q422, you're now saying that's net neutral, quarter-on-quarter for Q1. There's a positive reversal coming through in Q223, Q323, Q423?

**Anna Cross**

Yes, I think that's what I've said on the call.

**Andrew Coombs**

Okay, I think there was confusion around this. But when you look at Q223, Q323, Q423 and the reversal, can you give us an idea? Because this is cost of carry relating to fixed positions, so what is the maturity of those positions? Because presumably, that's what's causing the reversal, as they roll off. Could we just get an idea of the magnitude of the uplift coming through, quarter to quarter?

**Anna Cross**

Okay, so let me unpack this. Firstly, not a mishap. Within our liquidity pool, as I said on the call, we are over 80%, cash central banks. We then have a position which swapped out, and then we have a smaller position which is very tightly risk-limited which is outright risk. Cost of carry on that piece went up very sharply in Q422.

So, a few things to note on it. Firstly, short-dated. Secondly, actively managed. Thirdly, within a strict risk limit. That is one of the treasury impacts that will impact us over the year, so it is not all of the momentum that we see from treasury. It is a meaningful part. What you see, quarter-to-quarter, is that stabilises and then starts to run off. But there are other impacts. They are all incrementally too small to call out. That's why I called that one out.

**Andrew Coombs**

But when you say short-dated, is it a case of that 16bps potentially reserving entirely by the end of 2023?

**Anna Cross**

Not entirely, but mainly. But it's not all relating to that particular point. That is the largest part, and it's not a single instrument. We have, as you imagine, a strip of different instruments. They are all short dated, they will all run out at different points in time. That's what I'm looking at when I give you my overall NIM guidance.

**Andrew Coombs**

And my other, final, question is, you said, previously, you didn't want to give much away on deposit beta for competitive reasons. Subsequent to that, we've had both NatWest and Lloyds come out with specific guidance around deposit beta, talking about cumulative 50%, particularly in the case of Lloyds yesterday. When we think about what you're working to in your assumptions, do you think it is, ballpark, similar to your peers or do you think you're widely different?

**Anna Cross**

As I said previously, I won't talk about it because I feel it's inappropriate as a competitive matter. However, I'm going to go back to what I said to Jason, which is this is a competitive, commoditised market. The only other thing I would say is we are not a hot-money bank, we have never been a hot-money bank, and our fixed-term deposit percentage is relatively low. So that's the only other thing that I think will probably help you.

**Rohith Chandra-Rajan, Bank of America**

A couple from me, which I think are follow-ups to previous responses. On the structural hedge, we've heard from your competitors, over the last week, that they manage the hedge in different ways. One is on a forward-looking model basis, based on the volume and stickiness of deposits that they expect, and one is backward-looking, reflecting the stickiness of deposits and the size and mix of the deposit base. It sounds, from your earlier response, that you're more in the backward-looking camp, so you reflect what has happened to the deposit base in how you hedge, but I just wanted to check that that was the case.

**Anna Cross**

No, forward-looking. Let me explain how we do it. In order to decide how much we are going to hedge, we are constantly looking at what we believe are the behavioural aspects of the deposits that we have, so that will be the type of depositor, how much they have over what we might imagine to be an operational float, for example. And so, what we're trying to do is identify what we perceive to be rate-sensitive balances. Those rate-sensitive balances are completely excluded from the hedge.

Then, within the non-rate-sensitive balances, we don't hedge it all, we maintain a buffer. So we're looking at behaviour, then we create a buffer for safety, and then obviously, because we are rolling a portion of the hedge every month, if we think we're going off track, and the behavioural assumptions that we have made are not panning out, either up or down, we can adjust the hedge roll in order to do that.

What we've done recently is we've adjusted the hedge roll in order to preserve the buffer in corporate, which is what I mentioned before. And if you think about it at the moment, whilst you don't get the enduring impact, if you maintain a buffer, the opportunity cost of maintaining that buffer is much lower than it was, because you're comparing, essentially, SONIA to the yield curve. Previously, they were [wider apart]. So, from our perspective, it is behaviourally led, we are looking forward all the time, and we're adjusting the buffer, and potentially the hedge roll, in order to make sure that we are capturing that behaviour.

**Rohith Chandra-Rajan**

So, based on what you're seeing today, your margin outlook and your revenue outlook is based on a stable hedge notional, is that because it's forward-looking?

**Anna Cross**

It's forward-looking but remember if you go back to what I've said on the call, I said we had more than £50bn maturing, and we might expect to roll the majority of that. So, in my assumptions, we are considering what will happen in the future and whether or not we will be required to pause some of that roll. That's already in my NIM outlook.

**Rohith Chandra-Rajan**

And then, secondly, just to follow up on Transaction Banking, it sounds like you expect deposit stability from here, just wondering about the cost of those deposits. I guess what we've seen in some other businesses, and I think yours might be slightly different because of the type of corporates that you deal with, there's been a lagging effect with what's been paid on those deposits lagging the base rates and market rates. I'm just wondering to what degree that's the case in Transaction Banking, and how much additional mix-shift you expect, going forward?

**Anna Cross**

We have seen more migration in Transaction Banking, that will clearly impact its NIM or its income, and that has been earlier and more significant than we've seen in retail. We've already seen an element of it, that's why we've paused the hedge roll, but that is what we would expect. The extent to which that continues or stabilises is quite difficult for us to call.



But you might expect that corporate treasurers, given that's what they do, move faster than retail depositors. That's what we've seen. So, depending on what rates do from here, we might see more or less migration, but we've definitely seen an element of it within corporate that will moderate that Transaction Banking income.

**Rohith Chandra-Rajan**

And then in terms of the passthrough of rates on deposit balances, is there any lagging effect in Transaction Banking?

**Anna Cross**

A little bit, but not as significant as in retail.

**Martin Leitgeb, Goldman Sachs**

Could I just ask a broader question in terms of how you're thinking about the return capacity of Barclays heading into 2024, without obviously trying to get a return or expected return target? Just in terms of the main moving parts, just looking back at 2019 return guidance of 10%, rate sensitivity, rates are now markedly higher, and I understand the number of moving parts are holding back returns in 2023, and some of the earlier comments today on margin, corporate lending, allude to revenue dynamics should improve as we head into 2024, could you just give us the main buckets how you think in terms of just directional revenue and also costs, some of the investment spent, impacting 2022 and 2023, and how the P&L could evolve into 2024?

**Anna Cross**

To remind you, we have given guidance of greater than 10%. Don't see that as a lack of confidence in our revenue momentum. We feel we have good revenue momentum, and that is across the piece. Here's how I think about it. Year on year, we had income growth of £[3.0]bn. £700m of that was in the UK. We talked about that a lot. £800m of it was in US cards. £200m of it was in private bank. £100m of it was in payments. And then there's £1bn in the CIB, of which £700m is financing.

So, if you think about our income, as I think many of you do, which is there are parts of it which are stable and recurring, and there are parts of it which are more sensitive to market outcomes, the things I have just read out are inherently more stable. And if we'd been standing here a year ago, and I remember it, we were talking about Banking and how poor FICC was, and this year we're talking about FICC, except we haven't, but the strength of FICC offset by Banking, that was actually a very difficult market.

So, it's very difficult for me to say that the CIB, or any element of the CIB, will be X and Y, but what we're trying to demonstrate is that it's becoming inherently more stable because of its diversification. So, 2021 and 2022 are completely different environments for that business, and it has performed in each one of those. That has been our objective in investing in it.

So, I think we have confidence because all of the things I have just said around the revenue momentum. And because there are attractive opportunities for growth in the business, it's not just a margin story. The UK NIM is important, but it is not the only income story. So go back and look at the UK NII as a proportion of the business in 2021 and 2022, it is no bigger in 2022 than it was in 2021. In other words, the rest of the bank is growing just as quickly. And the reason it's growing is because we've invested in it.

Diversification only works if you manage your risk well and you invest in the businesses so that they are able to perform in the environments that you expect them to. So, the reason for our caution on RoTE, is because we believe it's important for us to balance investment in the business, because that will ultimately lead to a higher absolute earnings position.

Clearly, we are sensitive to the fact that we are trading below book, but this is a 330-year-old bank, we are thinking about the franchise and balancing the investment in the business with the returns to shareholders. So that's what's caused us, if you like, to guide as we have on costs and guide as we have in RoTE. So, I would expect continued revenue momentum. I would expect us to trend towards our long-term CIR. So, we do think we have operating leverage, and impairment is going to be somewhat determined by the macroeconomics. The other thing I would say is normalise your tax rate, because there were some one-offs in 2022.



### **Alistair Ryan, Bank of America**

I'm going to ask you about the investment bank. You put £4.5bn into the investment bank last year, to get £3.3bn of profits out, that's your capital in, profits out, and it's a 10% ROE business, which is clearly below the cost of capital, so I guess that's why the market's struggling. How do you think about those tensions?

You mentioned investing for 330 years, which is admirable, but the market's not onside with that. The market's clearly not onside. The more capital you put in the IB, the lower the multiple. So how do you work those tensions out because the opportunity in the investment bank is substantial, it's kind of limitless really. The resources of the group are scarce and the market's not rewarding you for doing what you're doing, which is putting capital into the IB.

### **Anna Cross**

The reason that the CIB RWAs have gone up year on year, two reasons, one is FX, and the other one is reg. Ex-that, the RWAs are flat. And you can see how we are managing leverage. So, despite the fact that we have increased the income in the financing business, you can see that group leverage hasn't changed. So, we are driving the capital efficiency and the leverage efficiency of the CIB hard. That's how we think about it.

And I think it's really important to realise what we are in the CIB and what we're not. And that was the reason for our disclosure, to show you how we are making money from here, and you can see that increase in the financing business, but equally the fact that the RWAs are flat, the group leverage is not up, that we are managing our risk exposure, whether that be in the specific sectors that we're in.

We don't have set capital targets about what we're going to put in X or Y business. Because to a certain extent that flies in the face of being diversified. We want to be able to react to the market that we have around us, and we reacted to the market that we were in 2022, which clearly had extraordinary market opportunities, and we think that's the right thing to do for the shareholders, if we can manage the risk well.

What you should note is that the only two inorganic things that we have done are both in consumer. So that should give you an idea about our intentions, that actually we understand that market sentiment, and I guess the reason for that is ultimately around stability and predictability of income.

And ultimately, again, that's why we disclosed the Financing income, because we think within that overall Markets business, it's really important that people see that. So that's how we think about it. We're not ignoring the outside world, but equally we're not going to walk away from opportunities that we think are important for the shareholders. We will manage that capital and risk well, and where we see opportunities to continue to grow in the other parts of the bank, we will take them.

### **Ben Toms, RBC**

One on costs. One of the things that derailed the cost story for UK banks was the renegotiation of salaries last year through higher inflation. If inflation stays more persistent, is there anything in the agreement that you struck with unions, 7% this year, which stops another renegotiation later this year?

And then secondly, on Kensington which closes this quarter, you're probably now tracking buy-to-let a little bit more closely, is there any colour you can give on that market? If you read the press, it suggests there are lots of landlords pulling out, but I suspect they're more amateur than professional. Rents have gone up quite a lot, so yields are probably doing quite well, so any colour you can give on that market would be great.

### **Anna Cross**

In terms of the union bargaining, actually some of it's already in the run rate that you've seen. We actually struck, overall, 11% with Unite, and that includes the £1,200 that we put down last year. That relates to 35,000 people, largely in the UK. Whilst that sounds like a large headline, it is not the most meaningful part of our wages and salary costs for Barclays. The more expensive people, everybody above that unionised labour force, got an increase that was nowhere near that level.

We do it year to year. Let's wait and see what happens to inflation and, therefore, where we end up with the union, but we've got a good partnership with them. But I don't think you can extrapolate from there either across the whole wage and salary piece, I'm sure if you press my colleagues, they're going to tell you that they didn't get 11%.

So, we feel like we can manage it, and we'll just have to wait and see what inflation is by the time we exit this year. Because it's typically around the third and fourth quarter that we renegotiate, so they'll be thinking at that point about the inflation that they see. So, if Citi's forecast today is correct, then we may end up in a different place. But we'll see.

Our buy-to-let portfolio is typically not what I would say business buy-to-let, as it currently stands. It's typically an investment vehicle for some of our premier customers. That's the preponderance of buy-to-let that we have already. When we look at affordability, we look beyond the economics of the property itself. Because of the nature of what we do, we're looking at the economics of the person. So, in terms of our own buy-to-let portfolio that we currently have, we feel pretty comfortable with that.

Into Kensington, it's difficult for me to comment on the business right now. We will start to do that when we onboard it and we take control of it. All I would say is that what that business has is a very good capability of modelling complex income. That's why we're buying it, because we don't have that capability. We are buying a capability from them. The balances that we're bringing across are actually very small in comparison to our overall book, £2bn as compared to £160bn.

So, from our perspective, it doesn't really come with a substantial balance sheet exposure, it's really about that capability to understand, if that makes sense, because we think that's an increasing trend not just within the buy-to-let market but across the whole of residential. So given that we don't have that capability, that's why we're doing it. But don't think of it as a huge portfolio coming to us.

#### **Ed Firth, KBW**

I noticed the FCA have been talking a lot about consumer duty regulation, and they were particularly focused on, I think, treatment of mortgage customers who were repricing, but also the rate of passthrough of interest rates and savings. And I'd just be interested to know, internally at Barclays, how have these consumer duty rules changed behaviour? I noticed they were talking about board representation. Is there a board member now who's in charge of championing consumer duty? Who is that person? It'd just be good to know. They were saying it has been a big change, and I just wondered if there has been a big change.

#### **Anna Cross**

From our perspective, I think we would say it would probably codify the consumer duty, there is nothing in there that you'd go, well, that's new or that's a change in expectation. I would say the one thing that is different is the requirement to have a set of MI that would demonstrate that you've done what the duty says. So, I think that is the change.

I don't think you're going to see massive changes in what we do, as an outward matter, because we would feel that we are, and certainly what we're doing through our BUK transformation, carrying that out now. There is board representation, both for BUK and indeed for the group as a whole, and there are elements of consumer duty that actually extend into parts of Barclays International, like for example parts of CC&P. So, there's not just one board member, there are actually multiple, depending on which business we're talking about. But it doesn't feel like a massive step-change in what the customer will see, but there will be some internal governance to go around it.

#### **Perlie Mong, KBW**

Just a quick one stage-three balances. It looks like in the home loans bit, it's increased by about £400m, and then in credit cards it's gone down. Which is a little bit surprising, because normally you would expect credit cards stage-three to be ahead of home loans. So why is that?

#### **Anna Cross**

I think it's a regulatory quirk. I'm going to get one of the guys to come back to you, but I think it's a change in the definition of default.

#### **Perlie Mong**

And then can I just ask, very, very quickly, in consumer behaviour, I think what we all heard this quarter we might not have heard as much, is people switching from current accounts to interest-bearing accounts, and that's what's driving NIM guidance down across the piece. It seems to be a little bit of a surprise, because otherwise we would have heard a bit more about it, I guess. But is that just people getting to year-end and trying to sort out their finances and think about moving. Is there an element of surprise to you?

**Anna Cross**

No, it's not a surprise to me at all. I have always said that I expected switching to be more significant than passthrough in the end. It's just much, much more difficult to call for a number of reasons. We are internet-enabled now, which we weren't in the last high-rate environment, and equally, going in the opposite direction, banks don't have the same need for liquidity as they had last time we were in a high-rate environment.

All of those things are going to change that behaviour. Customers haven't done a whole load of switching yet, I guess we're expecting them to, because, firstly, there are some quite attractive headline rates out there. We want them to, because we think that's the right thing for the franchise, that's the right thing for their own financial resilience, and we're just coming up to ISA season.

So, if I did a quick poll about who's actually taken their ISA yet, I'm guessing it would be a bit of a mixed bag. People leave it quite late.

Okay, so I'm going to leave it there. Thank you so much. Lovely to see you all. Take care.

## Important Notice

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- MREL is based on Barclays' understanding of the Bank of England's policy statement on "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)" published in December 2021, updating the Bank of England's June 2018 policy statement, and its MREL requirements communicated to Barclays by the Bank of England. Binding future MREL requirements remain subject to change including at the conclusion of the transitional period, as determined by the Bank of England, taking into account a number of factors as described in the policy, along with international developments. The Pillar 2A requirement is also subject to at least annual review;
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In preparing the ESG information in this document we have:

- (i) made a number of key judgements, estimations and assumptions, and the processes and issues involved are complex. This is for example the case in relation to financed emissions, portfolio alignment, classification of environmental and social financing, operational emissions and measurement of climate risk
- (ii) used ESG and climate data, models and methodologies that we consider to be appropriate and suitable for these purposes as at the date on which they were deployed. However, these data, models and methodologies are subject to future risks and uncertainties and may change over time. They are not of the same standard as those available in the context of other financial information, nor subject to the same or equivalent disclosure standards, historical reference points, benchmarks or globally accepted accounting principles. There is an inability to rely on historical data as a strong indicator of future trajectories, in the case of climate change and its evolution. Outputs of models, processed data and methodologies will also be affected by underlying data quality which can be hard to assess or challenges in accessing data on a timely basis
- (iii) continued (and will continue) to review and develop our approach to data, models and methodologies in line with market principles and standards as this subject area matures. The data, models and methodologies used and the judgements estimates or assumptions made are rapidly evolving and this may directly or indirectly affect the metrics, data points and targets contained in the climate and sustainability content within this document and the Barclays PLC Annual Report. Further development of accounting and/or reporting standards could impact (potentially materially) the performance metrics, data points and targets contained in this document and the Barclays PLC Annual Report. In future reports we may present some or all of the information for this reporting period using updated or more granular data or improved models, methodologies, market practices or standards or recalibrated performance against targets on the basis of updated data. Such re-presented, updated or recalibrated information may result in different outcomes than those included in this document and the Barclays PLC Annual Report. It is important for readers and users of this report to be aware that direct like-for-like comparisons of each piece of information disclosed may not always be possible from one reporting period to another. Where information is re-presented, recalibrated or updated from time to time, our principles based approach to reporting financed emissions data (see page 87) sets out when information in respect of a prior year will be identified and explained

### Information provided in climate and sustainability disclosures

What is important to our investors and stakeholders evolves over time and we aim to anticipate and respond to these changes. Disclosure expectations in relation to climate change and sustainability matters are particularly fast moving and differ in some ways from more traditional areas of reporting in the level of detail and forward-looking nature of the information involved and the consideration of impacts on the environment and other persons. We have adapted our approach in relation to disclosure of such matters. Our disclosures take into account the wider context relevant to these topics, including evolving stakeholder views, and longer time-frames for assessing potential risks and impacts having regard to international long-term climate and nature-based policy goals. Our climate and sustainability-related disclosures are subject to more uncertainty than disclosures relating to other subjects given market challenges in relation to data reliability, consistency and timeliness, and in relation to the use of estimates and assumptions and the application and development of methodologies. These factors mean disclosures may be amended, updated, and recalculated in future as market practice and data quality and availability develops.

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dividend policy and share buybacks), return on tangible equity, projected levels of growth in banking and financial markets, industry trends, any commitments and targets (including environmental, social and governance (ESG) commitments and targets), business strategy, plans and objectives for future operations and other statements that are not historical or current facts. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements speak only as at the date on which they are made. Forward-looking statements may be affected by a number of factors, including, without limitation: changes in legislation, regulation and the interpretation thereof, changes in IFRS and other accounting standards, including practices with regard to the interpretation and application thereof and emerging and developing ESG reporting standards; the outcome of current and future legal proceedings and regulatory investigations; the policies and actions of governmental and regulatory authorities; the Group's ability along with governments and other stakeholders to measure, manage and mitigate the impacts of climate change effectively; environmental, social and geopolitical risks and incidents and similar events beyond the Group's control; the impact of competition; capital, leverage and other regulatory rules applicable to past, current and future periods; UK, US, Eurozone and global macroeconomic and business conditions, including inflation; volatility in credit and capital markets; market related risks such as changes in interest rates and foreign exchange rates; higher or lower asset valuations; changes in credit ratings of any entity within the Group or any securities issued by it; changes in counterparty risk; changes in consumer behaviour; the direct and indirect consequences of the Russia-Ukraine war on European and global macroeconomic conditions, political stability and financial markets; direct and indirect impacts of the coronavirus (COVID-19) pandemic; instability as a result of the UK's exit from the European Union (EU), the effects of the EU- UK Trade and Cooperation Agreement and any disruption that may subsequently result in the UK and globally; the risk of cyber-attacks, information or security breaches or technology failures on the Group's reputation, business or operations; the Group's ability to access funding; and the success of acquisitions, disposals and other strategic transactions. A number of these factors are beyond the Group's control. As a result, the Group's actual financial position, results, financial and non-financial metrics or performance measures or its ability to meet commitments and targets may differ materially from the statements or guidance set forth in the Group's forward-looking statements. Additional risks and factors which may impact the Group's future financial condition and performance are identified in Barclays PLC's filings with the SEC (including, without limitation, Barclays PLC's Annual Report on Form 20-F for the financial year ended 31 December 2022), which are available on the SEC's website at [www.sec.gov](http://www.sec.gov).

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#### **Non-IFRS Performance Measures**

Barclays' management believes that the non-IFRS performance measures included in this document provide valuable information to the readers of the financial statements as they enable the reader to identify a more consistent basis for comparing the businesses' performance between financial periods and provide more detail concerning the elements of performance which the managers of these businesses are most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by Barclays' management. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. Non-IFRS performance measures are defined and reconciliations are available on our results announcement for the period ended 31 December 2022.