

Barclays PLC Q4 2021 Results**28 February 2022****Sell-side Q&A transcript (amended in places to improve accuracy and readability)****Tushar Morzaria, Group Finance Director**

Thanks to everybody who has made it here. We have some folks on the dial-in, but it is very nice to see everyone who's here in person.

I'm not going to be doing too much of the talking today. Anna's here and has worked with me for eight years, so is definitely going to be a step up from me! So, I will slip into the background here and let Anna make some introductory comments. And then we'll take some questions.

Anna Cross, Deputy Group Finance Director

Thank you very much. I've been avid reader of your research for many years, so I'm really glad to be here. Looking forward to engaging with you as we go forward.

I think it's worth us starting with the events of last week and over the weekend, and the terrible human cost that, if, like me, you've been pinned to the TV over the weekend, you won't have missed.

So let me make three Barclays-specific points. I'm not going to make broader ones. Firstly, the backdrop is emerging day by day, and is very fluid. To the extent that we see any subsequent effects in the economies that we operate in, we might see some impact, but at this stage, too early to say. I won't comment on that today.

Secondly, we have very limited direct exposure. We've got no physical presence in Russia or Ukraine. We exited that during the period post 2014 when we ran down non-core business.

And then thirdly, on our trading exposure, we're just working through the implications of the emerging sanctions with regulators and authorities here in the UK and elsewhere. But one thing just for you to note, or to remind you of, we don't have a commodities business and, therefore, we would see that as a pretty important point.

Let me move on to happier things and to our results. I'm pleased to report that our diversified model continued to deliver in 2021. And we delivered a RoTE of 13.4%, and a PBT of £8.4bn. That was above our target of 10%, and was in all of our three divisions, in all quarters - so very pleased with that. We also announced a total capital return of 15p, 6p of dividend and 9p of buyback, £2.5bn in total.

You'll also have had an opportunity to hear from Venkat for the first time on the call, where he outlined his three priorities. The first, next-generation consumer businesses, very much focused on digitisation. The second, delivering sustainable growth in the CIB. And the third, what we will do in Barclays to help transition to the low-carbon economy.

So let me just remind you of the essence of Tushar's speech and the key parts of the guidance that we gave. We reiterated our Q3 interest rate sensitivity, almost exactly the same. What we've shown you is an illustrative 25bps parallel shift in the curve. That implies additional income for the Group, starting at £275m in the first year and growing thereafter, in part because of the impact of the structural hedge.

Secondly, we talked about the BUK NIM, and we gave revised guidance of a NIM expectation of between 260bps and 270bps. That's based on an outlook of 1% base rates in the UK by the end of the year. And, essentially, what we're

doing there is we're seeing the improvement coming from the liability side, but potentially with an offset on the asset side, given the growth of secured lending. Having said that, we are constructive on unsecured lending in both the UK and the US. And that's based on our expectation for consumer recovery.

And, last but not least, the CIB franchise, and one of the things that we discussed on the day is that whilst the volatile equity markets that we've seen make it quite difficult to issue, so there has been some reporting of a fairly quiet January on the Banking side of things, those same macroeconomic environments are actually quite constructive for the Markets businesses.

Moving on to costs, we kept our disciplined approach through 2021, and we said that we expect to deliver base costs of around £12bn, which is what we did. Overall, our costs did increase by 4%, but you'll note that that was in large part driven both by our structural costs and also by our performance costs. And those are reflective of the better returns that we sustained in the CIB in particular.

For 2022, we've guided to a modest increase in those base costs, and we would expect our structural costs to be lower year on year in 2022 versus 2021. And we said that we were comfortable with the overall level of consensus. So, hopefully, that's helpful.

And then turning to impairments, we have a net release of £0.7bn in the year. I'd reiterate our outlook that we would expect impairment to run lower than pre-pandemic for the next coming quarters. And that's driven both by the benign economic environment, with very low levels of real delinquency coming through, but, also, because of the shape of the balance sheet, with less in unsecured lending than pre-pandemic. And just to remind you, we're still carrying £1.5bn of management adjustments on the balance sheet.

On capital, we're at 15.1%. That was down 30bps quarter on quarter, but flat on the year. And then we gave some guidance to say, if we impact all of the regulatory changes that took effect on the 1st January, that was an 80bps move, and then a further 30bps from the buyback, taking us down to the top end of our CET1 guidance range.

But you might recall one of the slides showing that if we continue to generate 10% or above, that's broadly equivalent to 150bps of capital organically driven every year. And we also gave some early indications about what we expect to happen from Basel 3.1, noting that the timing and the content of that is still pretty uncertain. That's why we gave a range of between 5% and 10%.

So I'm going to pause there and take your questions.

Omar Keenan, Credit Suisse

Could I start with questions on costs? Can you talk to the modest increase on the £12bn and give us a bit of colour on what underlying inflation Barclays is experiencing? We hear anecdotally wages are going up, CPI going up, IT, CPI-linked contracts etc. So just want to get a better idea of how hard Barclays is having to run to keep to a modest increase in the £12bn.

And just a second question on costs. So the variable comp closed out the year at about, I think, £1.7bn or £1.75bn. And could you perhaps give us some colour on what the inbuilt operating leverage is on that number? Should the markets environment vary this year, what is truly flexible? Just so that we can understand how that operates.

Anna Cross, Deputy Group Finance Director

If you look back over recent history, what you'll see is that actually we've been holding that base cost position flat for a number of years. We always experience some degree of inflation, and we always invest in the businesses every year. So what we're used to doing is leveraging efficiency programmes and working really hard to keep that number flat.

I guess what we've seen this year, or the backend of last year and into this year, is a step up in UK and US inflation, which makes that position more difficult. So we will still drive those efficiency programmes. And we have got levers within our investment plans in order to manage that base cost number as best we can. So it's difficult to say what

modest means. I think it's a reflection of the inflation forecast we see, but, also, the levers that we have. So we'll continue to run those programmes.

In terms of where we would expect to see inflation to show up, our cost base is dominated by people, property and IT. As an IT matter, those costs are more fixed in their nature. So you wouldn't necessarily expect to see an immediate inflationary effect. But it's pretty much on the people side more than anything else that we would expect to see it.

Tushar Morzaria, Group Finance Director

You're probably somewhat thinking about what 2023 costs will be like, what's the flowthrough. So we used the word modest very deliberately. Cost discipline, cost control is very, very important, particularly as you go into... Let's see what happens to the real economy with the challenges going on in Ukraine. So I think you'll expect us to exert appropriate discipline where that's warranted.

Anna Cross, Deputy Group Finance Director

You'll note that in the fourth quarter we took a charge in respect of the UK. That's to help us reshape that cost base towards the way customers are behaving, and the way they want to be served, so more digitisation, less physical presence.

That will start to reshape the cost profile of the UK. I'd expect less of an impact in 2022, because we've made the commitment to take those cost actions but haven't actioned them yet. There's a payback, from the point of action, and that will be 2023 and beyond.

And I would say across our investment estate, we do consider how the businesses are trading as we make incremental investment decisions. To the extent that we see a business not performing as we anticipated, we have the opportunity to slow down investment. We also have the opportunity to accelerate it if we really want to lean into a particular part of the business. We're quite fluid in the way we manage that investment portfolio, and it does give us some levers to pull.

Onto the second part of your question, which was around comp. We had a value award of about £1.9bn, with £1.7bn going to the P&L. I'd remind you that even on the deferred element, we're taking a substantial part of that in the current year P&L, about 35% of it. And the disclosure is quite clear about what is subsequently deferred into future years.

But whilst it's not a formulaic approach, we do take the returns of the businesses strongly into consideration as we are paying those bonuses. You've seen us in the past reduce and increase the CIB comp. We'd expect to do that through the current year. And we'll see how the business trades. At this point in time, I don't think we've seen enough in terms of CIB performance to want to call that number specifically.

Alvarro Serrano, Morgan Stanley

My question is around the sanctions and maybe to help us think through what the repercussions could be, more than an absolute answer which I realise is going to be difficult. I noted your comment that there's no subsidiary, and you don't have any commodities business. But I don't know if there's any amount of trading business or volumes that you've done with Russian counterparts that you could share with us, or something like that.

And more conceptually, some of these entities being blocked from SWIFT and the central bank's assets being frozen. In terms of practicalities of your trading business, have these sanctions put any problems to closing some of the trades, making margin calls or seizing some of the collateral?

And I'm trying to think through if that's going to be an issue from a counterparty risk perspective. Is there anything that you could reassure us with on that. Because, presumably, volatility, you mentioned on the call that volatility's good for business, but just reassure us that you don't think there are trading accidents.

Anna Cross, Deputy Group Finance Director

Yes, it's a very live situation with the sanctions list firming up. So it's really too early at this point to make a specific comment much more than I said previously.

Just to reiterate that we've been very thoughtful, very careful as we've on-boarded clients over recent years, as you would expect us to. So I don't think there's anything specific that we can say at this point in time. Anything you would add?

Alvarro Serrano, Morgan Stanley

Maybe what you are looking through at the moment?

Tushar Morzaria, Group Finance Director

We wouldn't call out something specific. But, as Anna mentioned, Russia, I think we exited Russia in the 2014 non-core run down. That gives you a sense that our footprint is limited, as you'd expect, given we're not onshore Russia, we don't have commodities business, so you wouldn't be dealing with some of the corporations that have those kinds of businesses and they have exposure to.

Obviously, applying sanctions, central bank restrictions, that's a way of life for us. We've been doing that for years. So nothing specifically I'd call out. But it's a very modest part of what we do. So that's why it's not something I think we should say much more than we already have.

Raul Sinha, J.P.Morgan

Maybe two questions. The first one, staying on costs, could you give us a sense of what your normal run rate of structural costs might be in the medium to long term? I appreciate it's difficult to quantify these things, but just thinking about the broad buckets of structural change that are happening across Barclays, and you've been through a big body of work around ways of working and property, could you give us a sense of how much you've done of that agenda?

And then on the branch side, if there's any other big things that you might be able to look at that would obviously ultimately improve efficiency but might result in more structural costs?

The second one is on the very helpful Basel IV guidance. I just wanted to clarify whether that is a pre-mitigation number. This is before you think about how you might adapt to the new rules. And could you give us a sense of how much potential mitigation there might be against this kind of regulatory pressure?

Anna Cross, Deputy Group Finance Director

By their nature, the structural costs are episodic and a bit lumpy, so it's difficult to call out what we think a natural run rate would be. And, in fact, pretty much until 2020, we hadn't really called them out. They were included within our base cost position. They weren't sufficiently material.

Now, last year, we did two big things. The first was our London real estate footprint in relation to 5NC. So I guess the next time you come here, it'll be a whole load busier, we hope. So I think I can't see another big chunk like that one, in terms of London at least.

The other big chunk that we took was in the fourth quarter, in relation to BUK primarily, but also operations. And that's really about the digitisation of those operations and customer interactions and also, with that, getting some branch footprint. We've been closing branches for a very long time. I think when I got here, there were about 1,800, or at least 1,700.

Raul Sinha, J.P.Morgan

And the branch cost closures were previously in base cost, is that right?

Anna Cross, Deputy Group Finance Director

We never really called them out because we've been in a natural rhythm. I guess [we have now] just because we've stepped up the pace a little more. So it's not lost on us that we had an opportunities during the year to take those costs. So we've tried to time it so that we're generating the right return. I would say they'll be episodic. And we'll also look for opportunities to take them, not just in respect to the cost actions themselves, but the earnings capacity to do so. So that's probably how you should think about it.

In terms of Basel 3.1, it's difficult to say how much we'll be able to mitigate because at this point in time, we don't really know what the rules are going to be. So I guess we're waiting for the exact letter of rules and their extent. We're waiting for the timing of implementation. We're waiting for whether or not there'll be any transition effect, and the extent to which there might be any Pillar 2A offset. So there's quite a few unknowns, which is why we've given that that range.

What I would say is that, to date, as we've leaned into these regulatory changes, we've done so pretty successfully. We've got a good track record of being able to generate the capital to absorb them. I think once we understand those rules more fully and the timing more fully, then we can be more precise. But, you're right, that's a pre-mitigation number. The extent to which we can mitigate it will depend on the nature of the rules and the timing.

Tushar Morzaria, Group Finance Director

Yes, it's mostly in the Markets side of the Investment Bank, and that's where we're very good at adapting and getting ready for those changes. So I think Anna's right, that's pre-mitigation. Let's see what the real rules are, let's see what the implementation date is, and we'll do what we normally do with these things.

Andrew Coombs, Citi

Can I have three questions, all completely different?

So the first is on the margin guidance. You talked about some pressure around the asset spread side, but then benefits and higher rates coming through. One of the things that's since happened post your results is that Lloyds came out with their targets, and they also gave us numerous assumptions as to what they've pinned to those targets. And, within that, they were assuming quite significant further mortgage rate compressions. So anything you can say, quantitatively or qualitatively, on where you think completion spreads will move relative to Q421 in your expectation would be useful.

The second one is a strategic question. If we look back over the last couple of decades, we've had various strategies as new CEOs have come in, one growing-the-investment-bank, one shrinking-the-investment-bank etc. And I was interested that Venkat's strategy really seems to be, keep the status quo. You are sixth [in IB] on your metrics. The ambition is to be top six. Am I reading the tea leaves right? Is it, this is what we want, this is where we are, we don't really plan to change it from here?

And then the third one, just going back to Alvaro's question, and I appreciate it's very early to say, you've talked about how your direct Russia and Ukraine exposure is small. But from perhaps an indirect risk perspective, what areas are you most focused on, particularly within the investment bank? Is it a potential decline in the ECM, DCM, M&A pipeline? Is it margin calls? Where's the focus when you go into your Risk Committee meetings at the moment?

Anna Cross, Deputy Group Finance Director

So let me start with margin. The mortgage margin, the portfolio margin, I think about it in two ways. There's the impact of customers maturing from a fixed rate and then refinancing. You would expect that market to be fairly active in the current environment, in the rising rate environment.

The impact that you tend to get on the mortgage portfolio as a whole is the impact of people staying or not on a reversionary rate. So they come to the end of their fixed-rate period, they might look around and decide from there on in. I would expect in the current environment that period to be short simply because reversionary rates will be

rising in response to base rates. So customers are very rational, and we've seen remortgage activity pick up as house purchase activity dropped away. So you'd expect those things to put some pressure on mortgage margins.

Having said that, it's a very fluid, very competitive market. It's repricing very regularly. It tends to reprice in a lagged effect to the swap market. So it's actually quite a difficult market to call specific margin pathways in. I would just say that there's pressures in either direction.

Competitors have different scales of books, different proportions on standard variable rate etc., so it depends what kind of book you're looking at as to how those different impacts are going to play through.

The exact impact of asset pricing overall on NIM will also depend on how quickly unsecured lending recovers as well. Because, clearly, the margins on those two products are really quite different. Whilst the absolute lending level of each individual mortgage is clearly much higher, the margins are a lot lower.

Andrew Coombs, Citi

I'm going to throw in another question. You raised it then. Lloyds gave specific guidance that they're assuming they'll return back to pre-COVID levels of unsecured balances by the end of 2024. So some way out. Any thoughts from your side?

Anna Cross, Deputy Group Finance Director

Well, we haven't and wouldn't give anything that precise. What I would say is that as we came out of Brexit and as we went into the pandemic, we were risk-off in Cards, so we took some actions. Those risk [appetite] changes are now reversed and have been reversed from Q321 onwards. So we are leaning into that recovery. We are out in the market and available.

I would also say though that customers reacted in a pretty firm way during the pandemic, perhaps because they were locked in their homes. We've never done a stress test that involves people not being able to spend money before. So we saw balances fall because of demand as well as supply. How that then recovers, I think, will take some time to play out.

What I would say is that the spending patterns that we saw through 2020 and 2021 probably lent themselves more to debit card spend. As the economy re-emerges, people make larger purchases. And, specifically, travel, we would expect that to lead into higher cards balances. But it's difficult to call out specifically what that recovery path will be.

Tushar Morzaria, Group Finance Director

And some growth in the US.

Anna Cross, Deputy Group Finance Director

I think we said all along that the US would be likely to recover slightly before the UK simply because of the nature of the product.

So if I can go onto the next question, which was a strategic one, Venkat's been here for six years and was part of that strategy being put together. So on that basis, I would say you're seeing perhaps a refinement of strategy, or him articulating it in his own words, but it's not different in fundamental shape.

And if you look at what we've done in the CIB, in particular, we've invested strongly in people, in technology, and, actually, in being there consistently. And that's pretty important. They are long-term decisions that you would expect to be enduring. You should expect to see us continue to fill in some blanks, continue to build on some of the successes that we've had in places like prime, and to build out securitised products. So I would say a continuation of the existing journey.

Tushar Morzaria, Group Finance Director

As I look back over this period of time, the real difference of Barclays' Investment Bank is the diversification that we now have relative to where we were, pick whatever year you want to pick, for the growth in prime, the growth in equity derivatives, growth in ECM, growth in M&A, growth in, for example, sellside mandates from sponsor activity on the equity side, rather than just on the debt side.

I think, and Venkat takes a lot of credit for this, greater stability of top line and stability of earnings has been the real journey with everyone. We don't really get too hung up on about sixth or fifth, or something like that. We think anywhere in the top six is a very profitable position to be in.

And we are who we are. We're good at what we do. And there's areas we can improve. But I don't think you'll see anything too radical. But opportunities to continue to diversify where helpful, is probably the one thing that I think is reasonable.

Anna Cross, Deputy Group Finance Director

Given the business that we've built and we continue to build, we're trying to create something which can be successful in a greater range of environments. So, actually, if you look at the shape of the bank now, shape of the CIB, it looks more like our US peers than it looks like our European peers. And by that, what I mean is the split between Markets and Banking and then the split within Markets between FICC and equity. That gives us more optionality.

And then within Banking, it's not just DCM, it's also ECM and advisory. They're probably the areas that we've made some pretty pleasing progress over the last year or so. I'd expect us to continue to do more of the same.

Then to just close out on Ukraine, I wouldn't say any more than I've said already. We're just continuing to work through those sanctions carefully, and nothing specific to say.

Tushar Morzaria, Group Finance Director

Yes, I wouldn't call it anything specific, but it's everything that you said. Anna's been involved in the risk meetings since the invasion began and even before the invasion, so looking at what our counterparties are, looking for second derivative exposures. It's always the transmission effects from a primary stress, and it's always a secondary component of that which catches you out.

So, as you would expect, the team is all over the transmission effects and implications of sanctions. In the foreign exchange markets, in refinancing, in settlement risk, it's all the things you'd expect us to do, and you can imagine the full weight of Barclays has been all over that for some time.

Benjamin Toms, RBC

Two questions, please. First one on your impairment overlay that you had at year-end. Can you give some colour on the discussions you had with your accountants when you posted that overlay, and how comfortable they were with it? And when we get to the end of next year, do you think they'll be comfortable if there's any balance left?

And then, secondly, on Green Mortgages, it's difficult to tell, but if you look at peers, they're starting to become more and more part of the flow of the business. I think at someone like NatWest it's about 7% of the flow. I know, on your website, you give a discount of about ten basis points for a Green Mortgage, but presumably, there's some benefit on the funding side. Can you just comment a little bit on the profitability of those mortgages versus the rest of the book as they become more important?

Anna Cross, Deputy Group Finance Director

What you've got to consider here is the balance sheet date. The environment is quite different now to what it was at 31st December, and specifically at that point in time we had a new variant, and we were asked to work from home again across the UK and across the US in particular.

For us to run our models, we have to take a macroeconomic forecast. We use consensus for that, as do our peers. It was difficult to see, or we judged that it was difficult to see that, in that environment, the consensus was effective, i.e. that it was able to pick up all of the risks that we saw around us, whether they were directly from Omicron, or whether they related to some of the other macroeconomic stresses that we see still and perhaps intensified in the economy. So, supply chain stresses, inflation stresses, etc.

When these models were built, we hadn't had a period of high inflation for a long time, so there's a degree of economic uncertainty, both from the pandemic and from some of the other macroeconomic factors, that we judged were not fully reflected in the macroeconomic consensus that we used for our modelling. That's one of the specific reasons that we had for maintaining those overlays.

I would say we're also very watchful of specific cohorts, whether that be in corporate, or in retail. And essentially, what we were looking for was cohorts where there's still a degree of support out there, probably less so in the UK, other than SME. More so in the US, there were many support schemes that extended out into Q122. So, we're looking at two things, like people at risk of delinquency, whether they be corporate or customers, and also the fact that the macroeconomic stress, perhaps, wasn't fully reflected in consensus.

That's why we kept those overlays. They are judgements by nature, but they are very complex models. And as we've gone into the pandemic, we actually almost went the other way. We said the macroeconomic forecasts that we were looking at in February/March 2020 weren't fully encapsulating the risks, so we pushed more impairment in. And then when the government support schemes kicked in, we had to adjust them again.

The models are complex, but they're not fool proof, and therefore, we have to exercise a degree of management judgement over and above them. What happens from here is, we're very watchful of how the macroeconomic environment continues to evolve. We are very watchful of how those customers and clients behave from here on in, but I wouldn't expect a single event [trigger]. This may unwind itself over a period, but each quarter, we'll reassess the macroeconomic environment and if it's right, and if our process would require us to, then we'll refresh it.

On the green question. I confess, I have not looked at the specific profitability of the Green Mortgage. What I would say is, though, that all our mortgages go through the same pricing process. Each mortgage has to stand on its own, in terms of its profitability. I would expect us to lean into that kind of product under Venkat's third priority. You should expect to see it becoming a larger part of what we do. But at this stage, it's not a massive driver of volume.

Tushar Morzaria, Group Finance Director

I think Venkat may have said on the call that we had last week. But if he were here, I think he would also add that you normally think about the wholesale opportunities when it comes to ESG, and that in some ways makes sense if there's trillions of dollars that need to be invested into the transitioning of the economy, in terms of its energy sources. But I think we're equally excited about the retail side. And that's probably an area that you'll hear us talk more and more about as him and Anna go through the quarters.

So, it's something that we're extremely focused on internally, and I think you'll see more and more innovation, probably across the whole sector, but certainly, we want to be at the forefront of that.

Jason Napier, UBS

The first is, I take what you're saying about banks that pre-hedge the pipeline and so on. We've been publishing spread-adjusted numbers for six years, and I've been asking for six years how far ahead do you hedge, and what's the right lag to use? So, any colour around that would be helpful.

And following on from that, in an environment where the swap rate effectively reduces some products to no spread at all, are we even looking at the right way to consider profitability? Should we be taking the swap off in a world where holding a two or a five year fixed-rate contract with a customer is probably a good idea and you might not want to hedge that? So, secondly, should we even be deducting those swaps?

And, thirdly, after ring-fencing, it wasn't really competitive to buy gilts instead of lending, whereas now, conceivably, you might hold gilts as a risk-free asset alternative to mortgages. So, I just wonder whether you could talk to

composition of HQLA and size of that portfolio as, maybe, an alternative use for all that excess liquidity that the world is replete with?

Anna Cross, Deputy Group Finance Director

I don't think we'd specifically comment on that length of pre-hedge, so you might need to keep asking. What I would say is that, as the team are pricing mortgages, they are looking at a number of factors, and they would look at the swap.

And it's one of the pricing disciplines you would expect us to have, that we consider the marginal cost of funding as we price each marginal product. Having said that, it's not the only consideration, and they would look at the liquidity position of the bank as well, and also consider our franchise position. So, on your point on gilts, if it were purely investment management, then that would be correct, but it's a retail bank, and we have customers and long-standing relationships.

That's certainly part of the consideration that we would have. As to how others price, I can't comment on that. They would have different liquidity positions, different product constructs and internal mechanisms, we couldn't comment on that. But from our perspective, yes, the swap is relevant, and we continue to look at that, but whilst not ignoring the franchise and the liquidity impact.

We have, in the past, stepped back from mortgage volume where we felt that pricing wasn't compelling, and indeed stepped into it where it is. So, I would expect the team to continue to do that as well. Very importantly, it's a ring-fenced bank. It has its own capital and liquidity position and we need to manage it as such.

Tushar Morzaria, Group Finance Director

We're very long-funded. At the group level, we have a 70% loan: deposit ratio. Obviously, the ring-fenced bank will be a sort of reflection of that.

We have plenty of liquidity. We'd rather lend it in franchise assets than buy gilts, I think, as Anna says, but the rates will be bouncing around, obviously, with everything else going on, but it's a lot better, the yield pickup, than we would have otherwise got on money we can't lend out in franchise assets.

Jason Napier, UBS

So, just to conclude on that point alone, on the structure of HQLA and so on, you haven't kept it short-dated in the past environment that might need changing now?

Tushar Morzaria, Group Finance Director

Yes, we haven't. If you think about what's in our HQLA, I think it is in our disclosure, something like 80% to 85% is Central Bank cash, 15% or so in securities. This will be our rate disclosure. You can see that we have a lot of flexibility to either ramp it up or, indeed, deploy it if we want to. You're careful before you take duration risk like that because the yield curves are volatile as well, so, yes. But we have plenty of flexibility.

Ian Gordon, Investec

Can I just come back to credit cards, please, to make sure I've properly understood your earlier answer, specifically in relation to the UK business? Your risk appetite's turned back on. You've described your view as constructive. Sitting here at the end of February, rather than at the end of December, is it a fair characterisation that your UK card balances are not yet growing in a material sense, despite being open for business? And I hear you, in terms of travel and large-ticket items and all the other things which should turn that flow on, but just to make sure I've understood you, as things stand this is in the future, not in the present?

Second point, you very specifically called out the fact that your coverage of your cards portfolio is above pre-crisis levels. It almost feels like that's a provision number, which your balances should grow into, even if that's not how the

accounting's meant to work. So, why is it appropriate for your coverage levels to be at the elevated levels that they are?

And then, thirdly, US tax. I suppose, the answer is, it will be what it will be, but as a bank for whom it's not a non-trivial issue, what are your current planning assumptions, in terms of will Biden push through a watered-down version of these proposed tax measures, and will it come ahead of the midterms?

Anna Cross, Deputy Group Finance Director

Ahead of the quarter end I won't comment on specific balance growth or not, but what I would say is that you expect spending recovery to be a good lead indicator for balance growth, so we'll wait and see what happens. We clearly saw increases in purchases and utilisations going into Q421, and then Omicron happened. That probably stepped back a little bit. Then, actually, what we've seen in January, and well-publicised across the industry, customer spending levels have gone back up again, so we would expect that to flow through at some point into balances.

But at this point in time, we've reversed all of the risk appetite changes that we took, going into COVID. So, we're in the right spot. In terms of coverage, specifically, what I would look at is that the PMA is concentrated in the Stage 2 not past due category.

That's why that number's as high as it is. Is it inappropriately high? Well, I've explained why we put it there. We put it there because of the economic uncertainty. If that uncertainty dissipates, then you would expect that to be reversed. However, one of the reasons that impairment is as low as it is, is because balances are low, utilisation is low, and therefore, the credit environment is very benign. To the extent that customers start using their cards more, the probability of default goes up. In part, you would expect to almost grow into part of that balance. So, it'll be a combination of the two, if that makes sense.

As concerns US tax, as we went through the middle of last year, it looked like we were going to see an increase in corporation tax rates in the US. I think that's far less certain now. But there are other detailed matters that we're very watchful of, so things like BEAT. And we'll just have to wait and see how that pans out, and indeed, whether or not any of the current global pressure is something that will slow down or speed that up. It's really difficult to call at this point in time.

Tushar Morzaria, Group Finance Director

Yes, probably less likely than it was before Ukraine.

James Invine, Societe Generale

Another one on credit cards, please. Anna. You just said that your risk appetite is back to where it was prior to COVID. How does that compare with the risk appetite level that you had prior to the Brexit referendum? You had a much bigger credit card book back then, and is that 29/30% market share of balances that you had just ancient history, or does it give you some advantage today through warm customer relationships or something like that?

Anna Cross, Deputy Group Finance Director

I would say it's less about risk appetite, more about the way we previously participated in the 0% balance transfer market. And actually, going through that 2016/17 period of time, we stepped back from the more aggressive end of that pricing. And we did that on the basis of economics. So, I think it's less about risk appetite, more about how we see the creation of value in that kind of product. So, that's the big distinction.

In terms of the 29/30% market share, as we've gone through the pandemic, that has been also consistent with everybody across the UK implementing the rules around persistent debt, and we're largely through that now. But that is a structural change in the market, and we'll have to see how the market evolves now those changes are completely implemented. But it is behind us.

James Invine, Societe Generale

I take the point on persistent debt, but I think your share is still down, isn't it? I think you're now at, what, 18% of balances maybe, and it was 29/30%. But you think that is now just a historical footnote somewhere, and it doesn't give you any benefit today?

Anna Cross, Deputy Group Finance Director

I would say market share is an output. It's not a target for that team. What was really important was that we implemented those changes through Brexit. We were risk-off from that period of time, and then again, as we went into the pandemic, you would expect us to act cautiously, going into a pandemic. We're now reversing those decisions, and we'll see where we get to, but we're not aiming to get to a magic number. It's an output, not an input.

We feel like the product's very compelling, and risk is out there, so we'll just have to wait and see how they develop.

Rohith Chandra-Rajan, Bank of America

I wondered if I could ask two things. The first one is just revisiting costs. You talked about, I think it's the £50m saving from exiting 5NC, and you mentioned earlier about some of the branch closures in the UK. What underlying cost savings are there embedded in the actions that you've taken to date that we should consider over the next two to three years?

And then second one is, you talked a little bit last week about capital-light revenue growth. Was just wondering if you could elaborate on that, in terms of which products and which segments you were particularly thinking about there?

Anna Cross, Deputy Group Finance Director

You're right, in terms of the disclosure we've previously given on 5NC, it's £50m a year from 2023 onwards. In terms of UK branches, as we close a branch, we get property and people cost savings, and there are other peripheral savings around that, e.g. moving cash around and so on and so forth. Typically, what we would expect is a payback of around one to two years for people, around two to three years for property.

The extent to which that flows into the P&L directly will depend on the extent to which we want to reinvest that to close further branches to get to our optimum position. It's difficult at this stage to call out a specific cash saving number, so we wouldn't do that. In terms of capital-light growth, I would say, if you start in the CIB, the growth in prime balances, which has been steadily growing since 2019, maybe even slightly before, is very capital-efficient.

If you look at, actually, ECM and M&A, they are also pretty capital-efficient. But I would say, on the other side of the balance sheet, our payments growth, transaction banking and probably our growth in wealth and investments.

Tushar Morzaria, Group Finance Director

I think the only other one [I would mention] there is fixed-income financing.

Rainbow Moore, Autonomous

I have a couple of questions on your mortgage book. The first one is, how big is your legacy lifetime tracker book? And is the churn you're seeing here margin-positive? And, second, what's the size of your SVR book, including balances on reversionary rates, please?

Anna Cross, Deputy Group Finance Director

So, I don't think we've given any disclosure on the substructure of our mortgage book, so it's not something that I would do here. To help you think about it though, what matters for a customer is, they're looking at the rate they're paying now, versus what is the prevailing front book rate in the market. So, the extent to which the base rate rises and drives those legacy rates higher, there will come a point where it makes economic sense for that customer to switch to a front book product.

There will come a point where they will choose to remortgage if it makes sense for them to pay the fee. But they are legacy products. They've been out there for some time, so that may not be rational for the customer. But I won't comment on the scale of the book.

Perlie Mong, KBW

Can I just take you back to structural cost actions? So, thanks for the guidance on that.

I just want to see what's your thinking for giving the guidance in terms of base costs plus structural cost action, plus performance costs. Like you said, until 2020 there hadn't really been structural cost actions, whereas some of your peers have had permanent, or semi-permanent, restructuring costs or however they call it in their below-line items. So, I know you said it's lumpy, but I just wanted to understand, is that a change in the way you think about the cost base? That's the first question.

The second one is on investment spend. I don't think you've given us a huge amount of disclosure on investment spend. So, obviously, in an inflationary environment, it would be really interesting to see how your normal BAU cost base is progressing in terms of investment spend. Anything on the percentage of your cost base on investment and to what extent that is related to a digital-type investment, that would be really helpful.

Anna Cross, Deputy Group Finance Director

You're right, we've always included all of our costs in the "cost line", and not below the line. and we wouldn't consider doing it a different way. What we did last year was, because of the scale of the structural costs, we felt it was important to call that out. To the extent that the scale is significant, we would continue to call it out, but we're not going to move it onto a different line of the P&L. It's all shareholders' funds, and we consider it all as the total cost balance.

Tushar Morzaria, Group Finance Director

Yes, and I think Anna's discipline behind the scenes is forcing us to manage to a statutory P&L.

So, this is all about insights into where we're spending money, don't think of these costs as something that we want to pass on, they are all in. We will measure our success and progress including everything [above the line]. You've made that point.

Anna Cross, Deputy Group Finance Director

Yes, and I would reiterate that when we are making those decisions, we are clearly considering the returns of the bank. So, we took a couple of opportunities last year. In terms of investment spend, it's not something that we've called out. We see it as part of the ordinary course of business. If you look at the business overall, it's predominantly people and tech costs, so it would be quite an artificial thing for us to pull that out of operating costs. It's not something that we've done.

Joe Dickerson, Jefferies

When's the buyback going to start?

Tushar Morzaria, Group Finance Director

Soon. We won't give you an exact date, Joe, but it's soon.

Martin Leitgeb, Goldman Sachs

Could I just follow up briefly on the mortgage comments earlier? And I was just wondering, if you look at the products from peers, do you see some pricing which you may consider as being irrational? And related to that, just thinking of the economics, deposit pricing, hedge and on the asset side/mortgage side, could there be a scenario, from a kind of managerial accounting perspective, that you could accept a lower threshold, in terms of returns on the mortgage side from just being compensated more on the liability side?

Anna Cross, Deputy Group Finance Director

I can't comment on pricing specifically. All I would say is, I would expect them to have the same considerations as us, which is, looking at their balance sheet holistically, considering their strategic positioning, and for every bank, they will be completely different. We've got different liquidity positions across the market. Some of them run multi-brand, some of them run single brands. You'd expect them to position themselves differently. It's difficult for us to say, from the outside in, whether that's rational or irrational.

And I'll just reiterate what I've said about our own pricing. We are very disciplined. We do consider the marginal wholesale cost of funding, but it won't be the only consideration.

We will consider our own liquidity position, our own balance sheet construct, and what we're trying to achieve for the franchise. It's not formulaic.

I think we'll probably close it there. Thank you so much for coming today. I'm really looking forward to spending some time with you over the coming quarters.

Tushar Morzaria, Group Finance Director

And thank you from me. it's been terrific working with all you folks over the last eight or so years. Best of luck for the future, and I'm sure we'll see you around. But thanks for all your help. Thanks for all your counsel. Thanks for all your challenge. Thanks for all your tricky questions, but over to Anna from now on.

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