Barclays FY 2024 Results and Progress Update

13 February 2025

Results call Q&A transcript (amended in places to improve accuracy and readability)

Alvaro Serrano, Morgan Stanley

Thank you. Alvaro Serrano from Morgan Stanley. Two questions, please.

One on your income assumptions. I've noted that you expect the size of wallet to come down. But I'll focus on BUK because I guess we'll have a view on that. On BUK, the guidance for 2025 looks on my numbers, for an underlying 2% growth versus the run rate in Q4, which sounds quite conservative given the volume growth and given the hedge contribution should be increasing.

Are you just being conservative or are we missing any moving parts, or I don't know, more competition in asset product like mortgage? Is there anything we're missing there or are you [just being conservative]?

And the second question on capital. If we take out, obviously, the buyback and German cards, it will come down and you want to operate at the higher end of the 13% to 14%. Do you have any, sort of, RWA efficiency measures that you can call out? And I'm thinking, obviously, there's been a Twitter sale, sounds like a couple of blocks there, and these are very high risk-weighted sort of kind of positions, over 250%, if memory serves me right. Will that have a significant impact that will help you sort of reallocate the capital to growth areas? Thank you.

Anna Cross, Group Finance Director

Thank you, Alvaro. I'll take both of those.

So let me start with a question that you didn't ask, but you sort of asked, which was about the banking wallet. So, I want to be really clear here. We're assuming or we have an assumption that the banking wallet remains as we had it last year. You [should] take from that, that if the opportunities are greater in the market we would seek to monetise those, as we have done in Q4 and indeed all the way through 2024. So, I'd just call out that distinction.

Relating to Barclays UK, we're guiding to NII next year or in 2025 of £7.4 billion. As I think about that number, I reflect back on 2024, and actually what we've seen in successive quarters, is strong NII growth. And we expect that to continue in 2025 and into 2026. BUK NII is not near its peak.

As I take the £7.4 billion, I think of it in a number of building blocks. So, the first is, take the Q4 run rate, ex-Tesco, multiply that by 4. Then add on £400 million for Tesco, add on the impact of maturing structural hedge this year. Now we are assuming a reinvestment rate of 3.5% in that calculation. And then take off the impact of four base rate reductions in the year. As I put those building blocks together, you will get to around £7.4 billion.

In addition to that, there's two further things for you to consider. The first, as you note, we have got good momentum in the business, and you can see that in Q4, you can see that in cards and in mortgages. We expect that to continue. In our calculation, what we're assuming here is that there is some offset in margin. I wouldn't call anything out in particular. I would just say, particularly, in liability margins, we expect a continuation of migration. Nothing more than we've seen, so I'm not expecting it to accelerate, but I'm just assuming that those two things are somewhat offsetting within the year.

You may have different expectations for those macro assumptions or indeed the swap rate, but we're trying to root this plan within factors that we can control, and we believe that we've made realistic assumptions that underpin that number. But I'd just highlight, we're expecting continued income momentum in BUK into 2025 and beyond.

In terms of your capital number, I mean, I'm not going to speak about any client positions as you would expect. Our focus here is on executing the plan as it is elsewhere. We'd expect the Investment Bank to operate within the framework we've given it for RWAs, so you should expect those RWAs to be broadly flat.

The thing that you didn't call out actually was organic capital generation. That's what we're confident in here. So, throughout Q1, remember Q1 is a seasonally strong quarter for us, we deploy RWAs into the business, but seasonally, it is very strong for us in terms of Investment Banking and Markets activity. And, you know, as we've called out in the presentation, our expectation is that organic capital generation will continue to develop both in 2025 and in 2026. And the kind of capital range that we talked about today is no different from where you've seen us operate actually over the last two to three years.

C.S. Venkatakrishnan, Group Chief Executive

So I'll come to you in a second, Perlie, but just, if I may emphasise one thing, which is behind the spirit of what we did last year and what we're doing this year, is we've given you our slides, we've given you an operational data pack. We've been very clear with our assumptions, right. And I think not just on NII, but other aspects, I think that's our approach, which is to tell you what we think structurally we're trying to achieve, our cyclical assumptions [and] our macro assumptions, and allow you, therefore, to impose your view if you'd like.

All right. Perlie?

Perlie Mong, Bank of America

Hello. Thank you, Venkat. Thank you, Anna, for taking my question.

So, I guess the first one is on 2026 targets. I guess the share price reaction this morning maybe reflects the fact that people were expecting a little bit more. And as you noted that, well, the environment is probably better than what you were sitting on a year ago when you put out the targets for the first time across every metric you could think of, pretty much. So, I guess, why did you not upgrade 2026 targets a bit more? I mean, I know it's greater than 12%, but would you, for example, invite us to put more focus on the greater than, for example, and any colour you could give on that would be really helpful. Just, if you were to come up with a plan today, wouldn't you be more optimistic than you were a year ago? I guess that's the first question.

The second question is on US Cards, just the direction of the business as the AA book phases out. So, do you still see it as a growth business? Because a few years ago, that was an area of growth that we all looked at. And then, I guess, more operationally, what does the exit of AA mean? So, what I'm thinking is that, well, maybe receivables growth will be a bit slower in the next couple of years as the book comes to an end. And then as you take on new books, well, there will be more J-curve impact and more day one impairments, et cetera. So how is that going to impact the RoTE? Because I know that you haven't changed the guidance on that either.

C.S. Venkatakrishnan

I'll let Anna take the first part, and then I'll come in for the second part.

Anna Cross

Yes, sure.

So, our focus is management, Perlie. What you should expect us to do is to execute the operational plan and deliver the financials without surprises. That is our objective. And so, our focus is on executing the plan that we've given you, and I would emphasize the greater than 12% and the at least £10 billion. But our primary focus really is on executing that plan.

We're pleased with the progress that we've made in 2024. We've hit all of the targets and guidance that we gave you, and we feel we've set the business up really well for momentum in

2025 and 2026. And I just call out that difference that I highlighted before. We are planning on realistic assumptions because we want as much of this plan within our control as is possible.

However, if the market environment allows, whether that be interest rates, swap rates, or the banking wallet, you should expect us to monetise that opportunity.

Venkat?

C.S. Venkatakrishnan

Yeah. Look, I'll emphasise that as well, which is that it's a realistic plan. It's a confident plan. It's a confident plan which is based on strong structural progress across the things which we can control, and then taking advantage of cyclical opportunities, as we did last year, and we expect to, as they come up.

On the US Cards business, we remain confident for a couple of reasons. First of all, we gave you the statistic of the number of accounts and the volume of receivables that come up for bid, which is c.$40 billion [on average each year]. Second, is that we have locked up [more than 80%] of our [total card] receivables through to 2029, and third, we have a retention rate of 90%, [i.e.] renewal rate.

We operate in a very specialised place with mid-sized companies for whom we have a particular skill at managing their card partnership portfolio and able to grow their balances and increase customer engagement. And so, just like General Motors came in this year, we will continue to look for these opportunities. I am fairly confident we will land them because when we participate in these, we know [that] what we provide is very valuable in the market.

And then on the operational side, you know, we will continue [inaudible]. To come back to your point on J-curve, first of all, if [80]% of the book is locked through 2029, there will be a J-curve for new things, right. But as a proportion of the business, it's smaller.

[Anna], would you add anything?

Anna Cross

Yes, I'll just reflect back on the plan that we set out last year. It's a plan of many parts. It's an executional plan that actually goes all the way through the P&L and the balance sheet. Clearly, revenue growth is important but it’s not the only thing that we are working on to improve the RoTE of the business. So, you know, we're working very hard on mitigating the impacts of regulatory headwinds. So, you saw that transaction in Q1 of this year. We're working very hard in terms of the cost efficiency of this business.

The cost-income ratio is now below 50% in this business. It's fallen for the last consecutive four years and remember; we're targeting to get it to mid-40s. So, there's a big digitisation push in this business.

The third thing is, we continue to work on the net interest margin of the business. We spoke again about that last year and that there are two parts. The first was repricing. We completed that repricing in 2024 and you're going to see it start to accumulate in the NIM overtime. And the second thing is, really reducing our funding cost by driving up the proportion of retail deposits. Again, I spoke about that in my prepared remarks.

So, Venkat's absolutely right. There are opportunities here to grow volume, but our RoTE delivery is volume, capital efficiency, cost efficiency, and NIM.

C.S. Venkatakrishnan

Go ahead, please.

Ben Toms, RBC

Ben Toms from RBC. Thanks for taking my questions.

There's been a lot of discussion over the last month around the government going softer on regulation. For example, changes in LTV restrictions. Do any of the changes that have been put forward actually have the potential to be material tailwinds? And how useful would it be to Barclays if there was a levelling of the playing field on ring fencing so you could use the first £35 billion of your deposits to fund other parts of the Group?

And I guess tied to this, does the messaging around risk attitude for M&A in the UK have the potential to cause you to rethink your low tolerance to material transactions? Thank you.

C.S. Venkatakrishnan

Good questions, both. So, look, I think we are at the early stages of a regulatory debate in the UK, which go both to what might happen on prudential regulation as well as consumer regulation.

We do think that, obviously, regulation is very important and it's important to the City of London. We also think it's important to have a balanced regulatory outlook and one that is commensurate across the globe.

So, in the US you're seeing a rethinking on Basel, on the base of Basel, as well as stress testing. And the PRA has postponed its own decisions till 2027. We would always want, we've always advocated, for consistency in total capital requirements. That means base capital in Basel as well as stress testing. And that's what we'd like to see. But it's too soon for me to say, one way or the other, what the results are going to be. So, you've seen the plan that we've given you with the assumptions we have.

On the consumer side, obviously, there has been volatility that's come in because of, you know, impact of regulations, impact of court cases, worries about retrospective application of these things. And you've seen it in the charges that people have taken and we took a provision on motor finance. What I'm very happy about on that is that we were small in the business, and we exited the business in 2019, right.

And so, you've got to risk manage the situation. You should always expect us to do that.

And then as far as M&A, look, this is an organic plan, right. And what you're seeing us do is to present what we aim to do for this bank in an organic way. And that is what we intend to be absolutely focused on.

Anna Cross

I might just add on, because I think you asked about mortgages.

So, Ben, there are three things I think being talked about. The first is, some reduction in the restrictions around loan-to-income and [the second] is affordability stress testing. I think our perception would be the second is probably more meaningful in the current environment, just because of the interest rate environment that that affordability test is probably the one that restrains the market a little bit more.

And then the third thing is around, potentially reducing RWA weightings in higher loan to value mortgages. We're an IRB bank. So, any change to the standardised rules wouldn't impact Barclays. They would impact Kensington. But not the larger part of [Barclays lending across the Group].

C.S. Venkatakrishnan

Yeah, Andy.

Andrew Coombs, Citi

Morning.

If I could just start with costs. Thank you for Slide 47. I'm just going to rephrase the slide, I guess, essentially. £16.7 billion of costs in 2024. If we're thinking about this in absolute cost terms rather than cost income, given that you've got the U.K. Tesco double run, investment in Corporate and PBWM, you've got FX translation. Presumably what you're essentially saying is you're expecting the cost base to grow to in excess of £17 billion in 2025, before then fading back to around £17 billion in 2026. But just wanted to make sure that understanding was correct.

And then the second question on the US Consumer Bank, you've specifically drawn out on Slide 39, that there is going to be a gain on the sale of the AA portfolio, and that seems to be included within the target. So, does that mean that come 2027, the RoTE fades again before it then recovers thereafter within that division?

C.S. Venkatakrishnan

Go ahead.

Anna Cross

Yes, I'll go ahead.

So, let's just look at Slide 47, please. The answer is, yes. So, we're expecting our costs to go up in 2025 because of the annualisation of Tesco, because of the integration costs of Tesco and because of those inflation headwinds that I talked about in my prepared remarks.

But underneath all of this, you've got a continued focus in gross efficiency. So that's going to be continuing. In 2025, inflation and investment outweigh the efficiency. In 2026, it's the other way around. So actually, I'm expecting costs to go above £17 billion. Actually, I think consensus is not in a bad place. And then drop back. So, that's my expectation.

In terms of US Consumer Bank, in 2026, you're going to have those two offsetting effects. As Venkat said, you're going to have a gain on sale. And you're going to have a more immediate impact from loss of volume. I'm not going to guide you to a 2027 RoTE at this point. I'll just make a few points.

Firstly, we're confident in our ability to regain volume, both organically and inorganically. Secondly, I'd just remind you of what Venkat said in his remarks, where he talked about, you know, American Airline was an incredibly important partner for us. But in terms of risk-adjusted returns, it's a lower part of our portfolio. And we will continue to really focus on the things that I talked about in terms of cost efficiency, in terms of capital efficiency, in terms of NIMs.

So let me give you an example on cost efficiency. So, the digitisation, if you like, of US Cards. So, as customers interact with us in a retail business, clearly, we want a large portion of that to be digital. In US Cards, that's low 90s. If I compare that to either BUK or indeed the German cards business that we've just sold, that was high 90s. So, we do feel we've got good opportunities here to continue to streamline the business.

Jason Napier, UBS

Jason Napier from UBS. Two questions on, firstly on cards and secondly on the Tesco Bank acquisition. There's a lot of focus on cards and whether Barclays is the right owner for the asset given the differential in capital loading that you are going to be having at some point.

So, one of the benefits is that the IB carries less capital because of the stress losses that the card business helps protect the unit from. Can you give us some concrete sense as to how much of a saving that is? I think it's a really important part of the debate, helped not only by what it means for you but also by the excitement about easier stress tests in the US at some point. We'll see how that goes.

Secondly, on Tesco Bank, it came in at about a 90% indicated cost-income ratio and it looks like from Slide 47, if I'm reading it correctly, it doesn't actually contribute to a lower cost-income ratio to the end of 2026. Is that right or is that part of the efficiency gains? And maybe you could just talk about how much pre-provision profit you think it can make. There was a deployment of capital. It felt like a cost takeout story in the beginning. It's no longer that. If you could just talk about how much profit you think it might generate once you're done. Thank you.

C.S. Venkatakrishnan

I'll take the first one and let Anna take the second one.

So, I think the easiest way for you to see it, obviously, it's under current rules, is to look at the CCAR results of the top banks in the US. And look both at our initial level of capital, which we keep, and look at the drawdown, and compare it to banks who don't have that kind of a credit card or a retail consumer portfolio in the mix. Now, scenarios vary from year to year and so on, so you have to look at it for a few years, but you will get a sense of the benefit. And I think it is an important regulatory benefit for us to have it in the stress test. It's under current rules, right.

Anna.

Anna Cross

Thanks, Jason. I'll take the second one.

So, you're right, Tesco's got a high cost-income ratio, around 90%, and I think that reflects in and of itself its lack of scale as a standalone business. So, I think our view is as follows. This actually still is a cost takeout story, but this is a complex integration. It's not like a portfolio in asset run-off. It's a growing business, an active business, and credit cards have a daily and digital interaction with the customers. So actually, it's quite a complex piece of work. But we are confident that we can do it, and we're confident that we can execute it well. But it doesn't happen as quickly as if, for example, we bought a mortgage portfolio, and that's really what you're seeing here.

Our expectation that this is RoTE-accretive to BUK and indeed the Group, hasn't changed. Typically, I would expect the cost-income ratio of an unsecured business to be relatively low, certainly lower than BUK as a whole. And if you want a good indication, look at where we're trying to get the USCB business to. So hopefully that gives you some indication. But you're going to see an increase in 2025, both from the operational cost, if you like, the dual running, some investment in integration. You'll start to see some efficiencies flow through in 2026, but as Venkat said, the real scaling and the real unlocking of that value will come somewhat beyond 2026.

But that's included in all of the targets that we've given you for BUK and for the Group.

Jason Napier

Thanks.

C.S. Venkatakrishnan

Kian?

Kian Abouhossein, JP Morgan

I had two questions. The first one is regarding the fixed income business. You discussed around the market share gains and equities. And I just want to understand a little bit where you are on the market share gains on fixed income, if you can talk a little bit about what has to happen for that to come through.

And then, secondly, just getting back to Tesco Bank, I mean, for me, what's more interesting is actually the customers that you gain. So, can you talk a little bit about the 3 million roughly active customers in terms of overlap, but also the 20 million clubcard customers, what is really the opportunity in terms of data that you're getting in the long term?

C.S. Venkatakrishnan

Yes. Let me take the first one, and Anna can take the second one.

So, within fixed income, we've had two focus areas. One was Securitised Products, and the other was European Rates. And I think it's fair to say, Securitised Products did well through the year. Credit, which has been a historical great strength of ours, was a smaller part of the overall wallet last year, as spreads remained both subdued and tight. And then the third thing is that European Rates started picking up only later in the year, as did macro overall.

So, when we look and we give you the market share, there are two ways we look at it. One is the market share number which we give, which is we take us and the top nine other banks, 10 banks total, and look at what our proportion was. And that's always a little bit of noise in it, because we are not in commodities. That's part of the number. There are certain regional exposures we don't have, especially in Asia.

But the other number which we look at is our penetration of our top 100 clients. So, we are a number six Markets business, a number six Investment Bank. So, we ask of that top 100, how many of them are we number five with, right? So, one step higher. And in that, that number which we began at 49 in 2023 and want to be at 70 by 2026, we've moved from 49 to 56. So, I take comfort from looking at that data with those clients in the things we do.

But of course, I want to see a broader improvement in fixed income. I'm confident, as I said earlier, because I think this is our strength. And we have strong structural presence. And cyclicality when it comes, plays to our strengths, will help us.

Anna Cross

On Tesco, I think we'd agree with you, it's an exciting opportunity. And I think that comes in a number of parts.

When we look at the customers, obviously with 20 million club card customers, that's broadly the scale that we have in our UK retail bank. It's inevitable, given the population of the UK, that there will be some overlap between them. That said, we see the opportunity to build and grow this business. And what's interesting here is our ability to use more than one brand in these markets that we haven't previously done, to target different demographics and launch different products. So, we're very thoughtful of that.

But I'd encourage you to think about Tesco a bit more holistically than just those customers and what we can do with them, because it speaks to a much bigger part of the BUK strategy, which is one which is more multi-brand, more partnership led. So, we talked when we bought Tesco about leveraging the capability that we have from US Cards and bringing it to the UK. You're now seeing that both in terms of Avios and Tesco and Amazon. So, more of a partnership focus in the UK that really helps us grow and diversify that cards business.

But also, more broadly across the Bank, we've always operated as a single brand. Now we've got Kensington, now we've got Tesco, et cetera. So, it's much more holistic.

The other thing I would say is that in buying Tesco, we've actually acquired some very good capability that we can take back into the core BUK business. And one of the things I'd really call out there is an open market loans capability that we didn't really have and actually, Tesco does extremely well. So, there are multiple points of leverage here.

Jonathan Pierce (Jefferies)

Yeah, good morning, both. It's Jonathan Pierce from Jefferies. Can I ask two questions, maybe one for each of you.

Anna, the base rate sensitivity table on Slide 71 is helpful. Thank you for splitting out the impact of base rate cuts or moves in the curve more generally, sorry, into swaps and managed margin. The managed margin piece though is extremely small. I mean, I think we could work that out from the previous disclosure, year one at £30 million, I'm assuming that's £20 million of gapping negative. But then we move to £10 million as a sort of ongoing hit from a 25 base point rate cut. Why is it so small? And maybe you could tell us what the pass-through assumption is behind that £10 million. That would be question one.

Question two, slightly longer-term one for Venkat. Where do you see the return on tangible equity going in this business in the medium term? I note in the report and accounts today that the second year on the trot, we've got a 14% RoTE target to hit the top end of your LTIP awards. That's now average across 2026, 2027. Is that where you sort of see this business potentially going in the medium term?

And sorry, a part two to question two, the dividend, your dividends been sub 10p for, nearly two decades now. The payout ratio on your target, on your targets next year is going to be sub 20%. Are we looking at a dramatic increase in the dividend payout ratio into 2027, please? Thank you.

C.S. Venkatakrishnan

You want to take the first and the third, and I'll come back in the middle.

Anna Cross

Okay, why not? Okay, can we go to Slide 71, please?

Okay. So, just for those of you who haven't got that far in the pack, we've split out, and I hope it is helpful, the impact of a 25 basis point parallel shift in the curve between two impacts. The top is the swap rates. For that, think the impact in structural hedge. That's why it builds over many years. And then the bottom is the base rates. And there, what you have is two impacts in year one, you have a timing impact. And then on a longer-term basis, you have a pass-through impact, which is what Jonathan's asking about.

The reason that the numbers on the bottom there are so small is because of the proportion that we hedge. And actually, if you compare this version to the version that we had earlier in the year, you'll see that our sensitivity has increased. And the reason it's increased is obviously because we've reduced the scale of the hedge as the year has progressed. So that is increasing our relative sense, our absolute sensitivity, but we think that we are still relatively insensitive, just because of the proportion that we hedge.

Now, what we don't call out is a pass-through assumption. But I would guide you that by using this assumption, and by using the split that we've given you on BUK deposits, you could probably come up with a reasonable approximation. Venkat?

C.S. Venkatakrishnan

Dividend?

Anna Cross

Yes. No, you go next, then I'll go back to dividend.

C.S. Venkatakrishnan

Yes, I'll go. Okay, fine. Alright, okay.

So, first of all, I think, as we've said, on 2026, is not an endpoint, it's a sort of a waypoint on the journey. So, when you look at the business beyond 2026, what I would hope is that if we've got the businesses, the lower returning businesses, such as the Investment Bank and the US Cards business to [above] 12%, and we maintain the higher return businesses at their [high-teens range for Barclays UK and the UK Corporate Bank], Private Banking & Wealth is [above 25%], and we continue to grow them, that proportionate mix would have a play into ultimately what the RoTE of the business should be, which I would hope is higher, not just because it would allow me to get more of my compensation plan, as you mentioned, but because I think that takes advantage of the full potential of the business.

It's a calculation which we will, have to come back to, because right now we're focused on 2026, right. But I do think, and I would hope that what we're building is a bank that's much more strongly performing well beyond 2026. That this is not a limit of our ambition. Our ambition grows, and for what we achieve for ourselves, for our customers and for you, our shareholders.

Anna Cross

So let me take the third point.

I think I mean, I'll start by just reiterating what Venkat said at the beginning, which is how important we realise our shareholder return is. And you should just reflect on our capital priorities, which are regulation first, distribution second, investment in our businesses, third.

The way we think about it and the conversations that we certainly had with our shareholders are really about total return. And that's our current focus. We're pleased to see that total return go up by 5% year-on-year. As you can imagine, we do have conversations with our investors about this and we're committed to the greater than £10 [billion]. But at this point in time, it feels like the right formulation.

Chris Cant, Autonomous

Good morning. It's Chris Cant from Autonomous. Thanks for taking my questions. I had a couple on RWAs, please, and then one on head office.

So, on Slide 45, you present your RoTE bridge, and you gave us the similar slide last year. You've got a 1.3% headwind in there over the two-year period from RWA growth. But obviously, some of the regulatory impacts have been pushed back. Your American Airlines card book is coming out. And essentially, I think you're probably going to undershoot your RWA growth target for US Cards.

Why hasn't that RWA headwind come down relative to where you were last year? So, in the equivalent bridge, '24 to '26, a year ago, you said greater than 1% headwind from RWAs. Now, you're saying less than, I think it's less than 1.3% if I add those together. So, it seems to have gone up despite the fact the RWA growth outlook looks better. What's going on there? Are we missing something? Because the reg headwinds have been pushed further into the future. So, it's now a 1.3% reduction here from RWAs in the RoTE bridge, and it was greater than 1% a year ago. So, it looks like it's got worse despite the fact the RWA growth should be less. So, if you could speak to that.

And sort of related on the deregulatory point, FRTB, I don't think you've ever given us a number. A lot of your wholesale banking peers in Europe do give us a number now. Obviously, that's an area that may never happen. So, if you could give us a sense of that, that would be helpful to understand the RWA trajectory.

And then the general one is Head Office. It's been incredibly difficult to model because there's been so much going on. It feels like it's a bit cleaner this year. I think it's a big driver of the range we see in your consensus. Could you give us an indication of what you think that looks like? And I completely appreciate, it's always a mess, because there's always odds and sods in there. But putting those to one side, what do you think sort of underlying Head Office income and costs are to help us corral consensus onto something more sensible? Thank you.

C.S. Venkatakrishnan

Shall I do FRTB and you do the rest?

Anna Cross

Okay.

C.S. Venkatakrishnan

But you can start.

Anna Cross

Okay. So, on your RWA points, our expectation is no different really around the RWAs. There's a timing point clearly in terms of the timing of Basel. But this chart is based on our plans to deploy £30 billion of RWAs in the UK and hold the Investment Bank flat. So, I think if there are more technical questions, we can come back to you on it, and I'll ask Marina to pick up after the event.

Venkat, FRTB?

C.S. Venkatakrishnan

Yes, look, you're right that there are some people who've given it. We are looking at the UK implementation, what we think we have already done in market risk capital calculations. And so, we don't have the specific information right now to be able to make a judgment. But we think, as we've said for '24 to '26, overall, we're keeping Investment Banking RWAs flat. In that, we said last year that there would be an absorption of about £15 billion to £16 billion of RWAs that came from a variety of things, including FRTB, right. We are not changing from that view.

Chris Cant

I think it's gone off. Oh, is it back?

In terms of the £3 billion to £10 billion range on Basel 3.1, is that 7 FRTB, is a big chunk of that variance FRTB, or is that residual uncertainty? Because I would have thought you've now got final rules in the UK, so what drives the range?

C.S. Venkatakrishnan

So, you've got final rules in the UK. You don't have a date yet, of course. But it's also there's a little bit of modelling uncertainty and just, and implementation on the portfolio. So I wouldn't say all of it is FRTB.

Anna Cross

Yes. Don't assume that the £7 billion is a FRTB in or out variance. As Venkat said, it's much more reflective of, we continue to refine our modelling, Chris. So, at this point in time, we're reacting to the rules that we have and expect to implement them in full and the 3 to 10 reflects that.

Just coming back to Head Office. So, I recognise the fact it's been very difficult to interpret and model as we've gone through 2024. I mean, you've had German cards coming out, well, going in and then coming out, the same with Italian mortgages. So, it has been very complex. So, I appreciate that. I won't give you a number for going forward. But let me tell you how I think about it.

There's going to be a few things which will be stable, enduring, evergreen, at least for the foreseeable future. So, within there, you've got the costs that truly relate to the Group. And you've got some costs that relate to some legacy Treasury funding. For the moment, we also have our merchant acquiring business in there. Those three things are going to be relatively stable throughout the period.

Then there are things in there which are inherently more volatile, and in part, that's why they're there. So, the first of those is hedge accounting. So that's essentially where we're offsetting the fair value of a hedged item with the fair value of the hedge itself. Sometimes they don't entirely offset and where there's leakage, it goes to P&L. Actually, that was quite significant in Q4. And it probably explains the income swing between Q3 and Q4. It's broadly neutral over time, it's just timing, but it can be volatile.

The second thing that you do see in there is where we've got any marks on our principal investments. That tends to be a bit smaller. And then the third thing in there will be, if we are carrying any litigation or conduct that relates to a business that we are no longer active in. So that's why motor finance is in there. So, as this settles down, Chris, we'll talk to you more about it. But at the moment, that's the sort of broad guidance I would give you.

C.S. Venkatakrishnan

Any more? Yes.

Elise Yu Ge, KBW

Hello. It's Elise from KBW. Thank you for taking my questions. I've got two, both on IB numbers, if that's okay. So, first is risk-weighted assets which decreased to 56% of the Group from 58%. And that includes Tesco acquisitions. So, in terms of the target, how should we think about the evolution to 50% by the end of '26? What exactly is the step down here? And then just in terms of modelling, is the £199 billion the new level of numbers we should be using going forward, or are we expecting it back to, say, '23 level, which is £197 billion? That's my first question, just with two parts.

And second is RoTE. So, to hit the RoTE expectation, which is in line with the Group, more than 12%, it needs to improve earnings by about 23% without more capital. I'm just wondering how exactly are you going to achieve that? I know, Anna, you mentioned more stabilised revenue and disciplined costs, but are there any other areas that you're focused on that we should be aware of? Thank you.

C.S. Venkatakrishnan

You want to take the first one, I'll take the second one.

Anna Cross

Yeah, and I can add to the second one if you wish.

C.S. Venkatakrishnan

Okay.

Anna Cross

So, on the capital number, so getting to 50% is, as we set out last year, at least. So, we expect the IB to be broadly stable. I would say FX is going to move that around, as you've seen from Q2 to Q3 to Q4, but broadly stable around that £200 billion mark. Remember that about 50% to 60% of our IB revenues are in US dollars. So, FX does make that number move around. But just to remind you, you then got earnings and RWAs moving together. So, even though those RWAs are going up and down with FX, I wouldn't expect that to have an impact on capital generation. So that would be the first piece.

In terms of the overall sort of trajectory to 50%, it's holding that piece stable and continuing to grow in those three focus UK businesses. I mean, you've seen us come out of 2024 with some degree of acceleration. You should expect that to accelerate over the period. So, you might see slightly more in 2026 than you see in 2025. But we'll report to you as we have done along the way with the equivalent of Slide 14. So, you can see that progression.

Why don't I start with some maths and then I'll hand over to Venkat. Just in terms of the IB RoTE, I mean, simplistically, it's gone from 7% to 8.5%, it's gone up by one and a half. We recognize the three and a half at least to go. So, we're very conscious of that. And that comes in a number of parts.

The first is clearly revenue. And Venkat talked about having delivered £0.6 billion of our £1.8 billion around our focus businesses. So, revenue growth is important here. And we're very focused on the things that we can control. And those areas of focus not only within markets, but the IB.

The second is revenue stability. And the reason this is important is we want an IB here which can deliver in lots of different environments. So, we think of financing, and we think of the ICB as ballast within that Investment Banking revenue. So that's also important.

If you take those two together, the third thing that's important is capital discipline. So, for the third year in a row, we've got broadly flat RWAs in the IB. So, we're generating revenue consistently. We're holding that capital flat consistently. And that's why the revenue over RWAs has gone up.

And then the thing that is most in our control, and I'm talking about it last, but it's not least, is costs and cost efficiency. So, the IB CIR is down by 3 percentage points year-on-year. It's delivered positive jaws in three quarters out of the last four. It needs to continue to do so. It's not going to do so every quarter, but you'd expect it to do it more often than not, because we want to get this business to a high 50s cost-income ratio. But even then, even in '26, it's not going to be top quartile. So, it will have more opportunity in terms of efficiency from that point.

Venkat?

C.S. Venkatakrishnan

I cannot improve on that answer. I'll just say one thing, which is that, I said last year that this is the hardest part of our journey, what we do in the Investment Bank. Because as you said, what we are trying to do is increase revenue, reduce costs, improve capital efficiency while keeping capital roughly flat, right. That we have done it in 2024, we are very pleased about, and it gives us the confidence to continue to do it. And that confidence is what Anna stated in her numbers.

I think that was it.

Anna Cross

Amit, right at the back.

Amit Goel, Mediobanca

Hi, thank you. It's Amit Goel here from Mediobanca. So, two questions. One, again, just coming back to broader strategy, but I guess just thinking about the world as it is today versus how it was maybe 12 months ago when you were putting the plan together, and the kind of opportunity set that you see, it looks like there's perhaps a bit more opportunity in the US. Maybe regulations a bit slower, discussion about growth in the UK, relative.

So, I appreciate you're executing against the plan that you've laid out, just around 12 months ago, but curious if you were to rethink about it or think about where you would position capital, if you're looking at it today, if there are any changes or anything else you would consider or think about.

And then secondly, maybe a bit more kind of detail, but I think on the RoTE the Group delivered for the year, this year, the 10.5%, I think, Q3, that was kind of guided to. So, I think the environment was a bit better in Q4 from an FX and IB trading standpoint, maybe a slightly bigger gain on Tesco. So just curious if there are any other factors that worked slightly in the other way that you saw. Thank you.

C.S. Venkatakrishnan

So let me cover the US first, and then Anna can cover the second part on RoTE.

So, you're right. We [think] there is a lot of opportunity potentially in the US. We certainly have it in [Global Markets] and we could have it in [Investment Banking]. We've had some through the last year and it may continue.

So, two things. First of all, as we've said, we have a fairly big US presence. The firm itself makes about 40% of its revenue in US dollars. The Investment Banking side makes about two-thirds of its revenue, 68% in the US So, we've got a huge presence there.

There is enough willingness and capital availability and flexibility within the Investment Bank and for US Cards to be able to deploy it in those attractive opportunities. And in fact, if you take US

Cards to begin with, we've already said that what American, the non-renewal side of American, what it does is that it gives us capital, which we look to deploy for higher risk-returning businesses and to diversify our portfolio. The similar opportunity exists inside the Investment Bank, and you've seen it in the deals we've taken in the US, as well as the strength of our Equities franchise, which is very heavily US based as well. So, we'll deploy it and we'll adjust.

Anna Cross

On your second question, in terms of RoTE, as you would expect, we manage a number of puts and takes in the delivery of our financials. So, you're right, there are a number of these things that were certainly better. I'd call out rates, obviously better than our assumptions. The Investment Banking wallet was better. We performed well in Equities. Deposits stabilised faster.

So, all of those things gave us a tailwind. But we talked about some of the headwinds here too, some of which were quite evident in the fourth quarter. Venkat talked about FICC, we saw some improvement in Q4 but it's definitely been weaker in the year and that's important because it's a big business for us. We also saw some unforeseen inflation not just in the fourth quarter but throughout the year. I'd call out the Bank of England levy in Q1, I'd call out Motor Fnance in Q4. And of course, in the fourth quarter, as I said in my remarks, we actively deliberately took some actions in Q4 to manage within the guidance that we've given you to actually accelerate some of our efficiency plans to really secure those costs in the outer years.

So, from our perspective, we're encouraged by what we delivered. We're managing actively within the plan to deliver it with no surprises.

C.S. Venkatakrishnan

Well, thank you very much, everybody. We appreciate your time, your engagement, your questions, and we welcome this participation. So, thank you again for joining us. I think there might still be coffee outside and we'll come see you outside. Thank you.

Anna Cross

Thank you.

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