Barclays FY 2024 Results and Progress Update

18 February 2025

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

Anna Cross, Group Finance Director

Good morning and thank you for coming. So, I appreciate it's only been a few days since we published our results and you're on some punishing schedule, I'm sure. And we've been on the road meeting investors.

So, let me start with a few remarks about the top areas of discussion before we open up for Q&A. So what have been the key themes of our meetings? First, a recognition of our performance in 2024. Perhaps a change in perception that our guidance might be too conservative. Secondly, the strategic opportunity from Tesco Bank. Thirdly, our organic growth in the UK. And fourthly, USCB post the sale of the American Airlines portfolio.

So starting with 2024 and our guidance, as you know, we achieved our 2024 financial targets and our plan through to 2026 is one of measured ambition. I'd also stress to you that we are acting with purpose and urgency. Our plan isn't passive and if we can accelerate actions to improve returns earlier, then we will do so. That's what we did in 2024. We used our stronger income to accelerate some actions, including some structural cost actions in the fourth quarter, whilst meeting our targets.

I'd encourage you to think about our 2025 plans and guidance in a similar way. We will invest to improve the structural profitability of our business, whilst delivering improvements across key performance indicators, including RoTE. Importantly, the plan is based on realistic assumptions because we want the outcomes to remain within our control as much as possible. But if a more favourable environment prevails, you should expect us to continue to monetise that opportunity.

Moving to the second theme on the Tesco Bank opportunity. We outlined the key highlights in the operational data pack on slide 57, but a few points to emphasise. First, the dual brand proposition. This allows us to offer differentiated products to a customer base of around 4 million Tesco Bank customers and more than 20 million Tesco Clubcard customers. Second, new capabilities, particularly open market lending for loans, which Tesco does very well. Third, improved access to capital and funding, enabling organic balance sheet growth and supporting our ambition to grow our UK lending.

So third on organic growth, and our £30 billion RWA deployment in 2026. You might recall, throughout last year, I said that I expected the UK balance sheet to contract in 2024 before expanding. We actually delivered growth sooner, £13 billion of true business growth, of which £6 billion was organic and skewed towards the second half of the year. That pace of our delivery, in addition to the momentum from our leading indicators, gives us confidence that we can deliver the growth to reach our £30 billion target.

And lastly on USCB, the plan for this division, as I said before is one of many parts. Scale is important and we have a track record to build this organically and inorganically, as you heard from Venkat last week. However, book growth is only one of the levers that we can pull, and we're focused on efficiency across capital, across costs and funding, as well as NIM improvement. We made proactive decisions across all of those areas in 2024 and we saw progress against them all. This gives us confidence that USCB can deliver above 12% [RoTE] in 2026, and mid-teens thereafter.

So before closing, I also want you want to point you some of the key highlights from our operational datapack, which I hope is a useful reference for you. It's certainly something that we've been using on the road. So on slide 59, in the UK Corporate Bank, we achieved 40% self-serve client interactions versus 30% in FY23 and we are on track for more than 60% by 2026. That's a key measure for us to drive efficiency and improve client experience.

On slide 63, in Global Markets, we are now top five ranked with 56 of our top 100 clients. That's up 7 since 2023, and on track to be at 70 by 2026. On slide 64, in Investment Banking, we delivered 90% growth in US dollar deposits versus 23, and this is a more efficient alternative to wholesale funding and a leading indicator of growth in our International Corporate Bank.

So in summary, we're pleased by our progress in 2024. We remain focused on the disciplined execution of the plan, and we're on track to deliver our 2026 targets. With that, I'm happy to take questions and to have an open discussion. Please can you introduce yourself with your name and your institution, because this meeting is being transcribed.

Andrew Coombs, Citi

Morning, Andrew Coombs from Citi. Perhaps a couple, one just because it didn't come up on the analyst call last week. The IT issue in the UK, a couple of weeks back over the weekend, if you could just elaborate on the cause of that, the resolution of that, how subsequent discussions have gone with the regulator and if there is anything on the additional UK investment spend for IT post that event.

And then second question is from capital return, you talked about capital return being important, being a key lever. It came up on the call that your payout ratio is relatively low from a dividend perspective compared to peers. Given the delay in USCB IRB mitigation and Basel 3.1, you do have a degree more flexibility now. So how are you thinking about capital return given that you've reiterated all of the existing guidance, but has that changed your mindset in any way shape or form?

Anna Cross

Okay, thank you, Andy. So on the first, I haven't got a huge amount to say at this point in time. We would expect to make a statement fairly soon. All I would say, in summary, is clearly we are very focused on remediating the situation for clients and for our customers. We've done some recourse analysis with the supplier and we would expect to make that statement relatively soon. But I would reiterate that it was not as a result, either of a cyber event or indeed any change that we had implemented internally. So our focus at this point in time is just on the client and customer resolution.

To your second point on capital return, as we said last Thursday, we're very focused on total capital return. We think that's the right measure, particularly at this point in time, and that was 5% up year-on-year on a per share basis. And you know, we delivered a distribution in alignment with the expectation that we set out in February 2024. We've reiterated our targets through to 2026, so just to remind you all of that: at least '£10 billion over a 3 year period, so there was no reason at this stage for us to change that target. I take your point about timing, but actually when we plan our capital flight path, we have a couple of things in mind. Firstly, those regulatory pieces that have changed and do move around, as we've observed over the last year or so. Secondly, we do so over a multi-year period, we're not planning in sort of six month blocks or anything like that. It is really a long term view Andy, we're happy with the guidance that we've given and just to reiterate [the capital return target of] at least £10 billion.

Okay, thank you.

Chris Hallam, Goldman Sachs

Chris Hallam from Goldman Sachs. So first on USCB. Does the change from American Airlines change at all how you think about the deposit funding strategy going forward and how would you assess your current deposit funding rate versus peers in the United States?

And then second on the IB. You mentioned, I think in your opening remarks about, you know potentially leaning into monetise further opportunities if they arrive in the market. Some of your peers have struck maybe perhaps a bit more of a mixed message on the outlook or progress year to date in fee pools. So I just wondered how you have seen those fee pools progress so far this year and how that feeds into optimism or pessimism for 2025?

Anna Cross

Okay, thank you Chris for those two. So in terms of AA, it hasn't changed any of our plan around the US cards business and to be specific, we knew that at a point in time that AA would want to pursue a single issuer model. We also took the decision that we would not bid for that, that's on the basis of concentration risk and the risk it would have put into our portfolio. We do believe that there is sufficient opportunity for us in the market, both organically and inorganically. One of the facts that Venkat used last week was, in any particular year, there's about 15 [partner] programmes [worth] $40 billion that really enter the market and we are confident in our ability to attract new partners and indeed extend and secure the ones we've already got, and we showed that in 2024.

So bearing in mind our asset pathway, we believe can be broadly the same, we still feel the same about deposits. What we did last year was, we went from a very simple architecture of deposits to a tiered savings proposition. And that launch in Q3 was actually very successful in Q4. And really, that's the kind of thing that we expect to extend. We raised wholesale deposits in Q4 as we would ordinarily do and actually probably ended up with a bit too much funding in that business, for good reasons, and we're happy with the early success of that product and we think we can continue to drive it. So no real change really in our desire to reach out directly to customers and use the brands that we have to do so. With something like AARP, the difference there is, it's not just the AARP customers who have a card with us that we can reach out to in terms of these additional products. That's really the entirety of that customer base, so it really helps us broaden out what we're doing in the US.

In terms of the IB, you know I'm not going to give you any kind of trading update. We can all read how those fee pools are going. I'd make two comments. The first is we made some comments last week about entering the year with good momentum and a good pipeline, we still feel the same about that. And then secondly, this is one of the reasons why we want to plan on realistic assumptions, to really have as much of this plan in our control as possible. So planning on an $80 billion banking fee wallet, that's down from last year at $87 billion and completely in line with the assumptions that we have from the prior year, so that's where I'd guide you to. Thank you.

Sanjena Dadawala, UBS

Sanjena Dadawala from UBS. A couple of questions on Tesco please. So first, on the net reduction in cost to expect from the £360 million annualised once the investment phase is done. And then also on the revenue upside from Tesco, with access to better funding and capital please.

Anna Cross

Okay, thank you. So just to remind everybody, Tesco in isolation, has a high cost income ratio. So, £360 million of costs against £400 million of NII. Clearly, we believe that once we get beyond the dual running phase and the integration phase, and during integration costs will actually go up, which is captured in the guidance that we gave you, that we can bring the cost base down. I'm not going to give you a specific number in absolute terms, but I just urge you to think about really what we would expect from an unsecured portfolio generally. They are typically lower cost income ratio businesses. So you'd expect the unsecured businesses within Barclays UK to have a lower cost income ratio than Barclays UK as a whole. And if you're looking for a guide, then look towards what we're trying to achieve within USCB, to give you some indication.

On revenue upside from Tesco, I would say this pertains not just to the Tesco customers, I think it comes from a couple of things. It comes from, as you say, funding benefit, but it also comes from our ability to reach out to a different customer set and build relationships with them that are more broad than the existing products that Tesco offers. But it's also back the other way, as I mentioned in my prepared remarks, because Tesco actually has a very good open market loan capability, which we do not have within Barclays. So since the early 2010s, our loans proposition within Barclays has been purely to our current account customers. So this allows us a broader open market proposition just as we do with cards and with mortgages. And I would say generally, if you step back and think about what we're trying to achieve with Barclays UK, we are on a sort of slow progression between being a single branded business, or dual branded if you distinguish Barclays and Barclaycard, all the way through to having multiple brands. So in cards, Amazon, Barclaycard, Avios, now Tesco and in our mortgage business, Kensington and Barclays. So it's just allowing us broader reach and different propositions that we can play into different parts of the market. So we think that's pretty exciting. Thank you.

Ed Firth, KBW

Morning, hi. It's Ed Firth from KBW. Yeah, I guess two questions. One on the US consumer business, there seems to be quite a lot of moving parts next year in terms of the AA disclosure. I think you said there's going to be a one off gain. And then I think that you said you were purchasing a portfolio, there was going to be some upfront provisions for that. Could you just give us some sort of idea, are we talking about 10s of millions, 100s of millions, because

otherwise it feels we're flying a little bit blind this year in terms of what that performance will be and actually, even what that performance means. So any help on those two would be good.

The other thing is, I guess the new US government are very obviously, very strongly US first, which at the moment everybody seems to be taking as a positive for everybody. But as a UK business with a huge US franchise, I guess any thoughts you had of initial discussions, how things are going, are you treated any differently to the US companies? Are you worried about areas? Are you not worried about areas? What are the opportunities and risks that you're seeing at this stage from there? Thanks.

Anna Cross

Okay, thank you Ed. Just to clarify, we're expecting to onboard the General Motors portfolio in Q3 of this year, it's around $2 billion of receivables. There will be some cost build out for that but not to the extent that we undertook during GAP. So it'll be much smaller than that, reflecting the fact that much of that capability around the retail branding or retail market is already built. So you're sort of folding it into that capability, but some uplift in cost and as I said, a day 1 impairment charge and that's really why we're guiding to flat loan loss ratio in USCB this year.

AA will come the following year, so in 2026. I'm not able to give you a number on that gain on sale yet, Ed, because actually what we will need to do is get closer to the event and at that point in time, we will fair value the portfolio and that's really what will drive the gain and loss on sale, a bit like we did on Tesco. So as we get closer, expect us to give you some numbers that are a bit firmer to that. But what I'm expecting more holistically is an offset within 2026, that's basically the gain on sale from the US, and obviously we'll have some impact from that immediate loss of volume that we'll have to pick up in terms of future volume growth. But the net of those two, we still believe will deliver the target of in line with the Group [RoTE].

In terms of the US government, it's a bit early to say. We make 40% of our revenues in dollars. We've got about 30% of our cost base in dollars. So it is a substantial business for us, particularly on the Investment Banking side. So I think two thoughts immediately come to mind.

The first would be, we're well positioned for any increase in activity within the US itself. If you look at our US banking footprint, it looks very much like our US peers. So from memory, 68% of our fees are in US dollars, so we're well positioned for any uptick in deal activity there. I think the other thing I would say is, we're clearly mindful of how US regulation proceeds and the discussions that we are having more generally are, it is helpful for banks, it's helpful for clients and for investors for that regulation to proceed in a relatively parallel way, and I mean both in terms of timing, implementation and in terms of the fundamentals of the regulation. But I think you know we're clearly waiting for a bit more clarity, but we welcome the fact that the UK implementation of Basel 3.1 has been pushed out to 2027 while that clarity emerges.

The other thing that we are mindful of is any disparity that we start to see in terms of net zero ambition between the UK and the US as a government matter. We reiterated that we are very committed to the targets that we have established already, so that position doesn't change. But just mindful of the risk of a disparity between the two geographies.

Ben Toms, RBC

Good morning, Ben Toms from RBC. Firstly on the structural hedge, how should we think about the notional this year? I think it fell 6% in 2024. Should we expect a further decline but at a slightly lower rate or is flat the right way to think about it? And the duration increased in 2024. Should we expect that to kind of stay flat from here or should it increase a bit further?

And then secondly, last week, you guided that you'd expect costs to be down in 2026 over 2025. I think your restructuring run rate is something like £200 to £300 million per annum, but you also mentioned in your opening remarks about if the opportunity presents itself, you would accelerate the plan. Could the underlying restructuring rate pick up a bit this year or is the fall in 2026 driven by actions that we're already aware of. Thank you.

Anna Cross

Okay, thank you. I might ask Dan to pick up on the first one, but I'll answer the second one to give him a moment. So yes, what we talked about last week was actually our target is a circa 61% cost income ratio for this year and for it to fall to the high 50s next year in 2026. The way I see that in absolute terms is for it to go up in the current year, I think consensus is broadly in the right place and then fall back towards circa £17 billion in 2026. And really, there are three things that I've got in mind, which are the things I called out at last week's events.

So they are inflation, which is more intense than 2025 than it is in 2026. That's just because the headline rate is coming down and clearly we experienced that headline rate on a delayed basis and there's some, not one off, but more unusual things in the current year like the increase in National Insurance costs. The second is the rate of change of our investment really is more intense than 2025 than it is in 2026. And what I mean by that is we've picked up the run rate of investment in the second half of the year. And you see that particularly, not just in Barclays UK where they've been taking some additional cost as we prepare for Tesco, but also in Private Bank and Wealth Management and in the UK Corporate Bank. So you saw that uptick and you see a full year of that investment.

But most meaningfully, it's Tesco and the addition of the £360 million of costs and then integration costs on top. There's not a meaningful change as we go into 2026, and in fact, what we expect to start to see is some cost benefits coming from Tesco, as the integration proceeds. And all the while, we've got a gross efficiency programme, which is continuing to run, we did £1 billion last year. We've got circa £500 million in gross efficiency savings this year and circa £500 million next year. So the relative weightings of those two things push costs cost up in 2025 and should pull them down in 2026. The £200 to £300 million per annum [of structural cost actions], absent 2023, has been an ongoing level that you would expect us to run. In 2024, we were towards the top end of that and it was quite skewed towards the back end, which is why we called it out because it certainly caused some variance to the consensus in the fourth quarter. From our perspective, we see that as normal, so I wouldn't call out anything particular at this point in time. But what you should expect us to do is to operate within the guidance that we've given you. So if we did see the opportunity to accelerate plans or secure the 2026 number, provided that doesn't compromise 2025, then we would consider that as an opportunity. Circa 61% for 2025 is all in, including the increase that I'm talking about in terms of Tesco.

Dan, do you want to talk about the structural hedge?

Dan Fairclough, Group Treasurer

So we gave you some guidance obviously at the beginning of the year on the expectations of the roll of the structural hedge. And we said 75%, sort of illustratively, is what we were looking at. That's exactly really what we saw in 2024, for 75% of the balances we rolled into the structural hedge. So we'll obviously keep a close eye on this, depending on how we see deposit stability progress from here, but at this point I don't think we'd change that view in terms of what we expect. Obviously with the shape of the yield curve at the moment, you know there's actually relatively limited difference from an NII perspective, in terms of the balances, floating versus fixed. But obviously the structural hedge size will determine the stability and the locked in nature of the income going forward.

In terms of the duration, I mean it's relatively small changes in duration and those duration changes were really in response to increasing signs of deposit stability that we saw. And this is the way we look at it, and we very much react to the customer behaviour that we're seeing. So it's possible that we'll get a little bit more stability and therefore a little bit of extension, but I think it will be pretty modest really.

Alvaro Serrano, Morgan Stanley

Hello, Alvaro Serrano from Morgan Stanley. A couple of questions on the themes that you've already touched on, but hopefully with a new angle. On the US cards, to get to $40 billion, you have to grow balances. If I take out American Airlines and add General Motors, about 40% or a bit more than 40%. Can you give us a flavour, because the actual organic growth in the US market seems to be slowing down, so what is the reasonable sort of expectation of what could be organic on your existing JVs and what could be new deals?

And also the 10.66% NIM to progress to above 12, should we expect it to be linear? I know you said last week that the price actions would feed into next year, but just a sense if it's going to be linear?

And the second theme of question is on CCAR and US deregulation. Putting Basel 3.1 end game aside, my impression is there's an expectation that CCAR is going to be watered down. Can you help us think through how that would help you? It's obviously less capital, but is that for the Group? Is it a constraint? What would you do in that scenario? What possibly does that open up? Thank you.

Anna Cross

Okay, thank you, Alvaro. So let me touch on the US cards to start with and then we'll come to CCAR. And again, Dan might want to make some comments on the closeout of that question. So in the plan that we have, the majority of the growth, more than [two thirds] we assume was organic, so that is our objective. Within there, we do typically expect a number of partners over any particular planning period. It's also important to think about how we retain partners. So if I just take those in turn, I mean General Motors at around $2 billion is the kind of size and scale of partner that we are pleased to bring on, between $2 and $4 billion. It is really an ideal size, both in terms of the implementation and the integration of it, but also the concentration that it places within the portfolio. So expect us to be focused on both of those two things.

In terms of the NIM, I wouldn't expect it to be linear. There are factors within there that will be a bit more linear. So I would call out the funding benefits that we expect to see as we continue to build out the deposit franchise and the repricing actions that we've taken already. They're

already in the terms and conditions for those customers, but they have to purchase on those new terms and conditions for that NIM impact to draw through, which is why you're going to see it drift through over time. So I'd expect those two things to be more linear.

There are other things which will be less [linear]. The first will be a degree of seasonality in the business. You can see that in the fourth quarter, you probably see it in the first quarter also, and then you tend to see a little bit lower as you go into the middle of the year, just running in line with borrowing behaviour in the US, remember that post-holiday season, we see a pay down, you get tax credits in the US, people use those. So there's just a natural ebb and flow to the NIM that we would expect.

And then the other thing would be, as we sort of rebalance the portfolio away from the super prime travel portfolio that we have, towards more retail, both by growing the partners we already have but also the opportunity to bring on new ones. Then you should see that NIM change. I mean one of the things that we said about American Airlines is we've had a long partnership with them, a long relationship with them. That's not just actually in US cards but in the Investment Bank as well. So it's certainly a relationship that we are sorry to see go, but at the same time it's got a low risk adjusted margin. And so over time, I would hope that the portfolios that we bring on would push that risk adjusted margin up.

Moving on to your second point, it's difficult to speculate about regulatory change in the US because there's clearly been a lot of commentary and we have yet to see anything formal either in terms of CCAR, or indeed in terms of Basel 3.1. So take these general comments before then. We typically perform well in CCAR because we've got a diversified business in the US. To the extent that it's watered down, it would reduce the overall capital levels that we've got in the US, but Dan, you might want to add.

Dan Fairclough

Generally, we operate in a position where the Group and the PRA metric is more binding on us than the legal entity capital metrics. So, certainly a watering down of CCAR would give us great flexibility in terms of capital and how we deploy it across our legal entities. But more important is the regulation and the Bank of England stress test. So it is helpful, but it's not a key driver for us.

Nicolas Payen, Kepler

Yes, good morning, Nicolas Payen from Kepler Cheuvreux. I have two questions on the IB please. The first one you talked about potentially monetising market opportunities in the IB and could that lead you to potentially increase the proportion of RWAs of the total group, at least momentarily. That's the first one. And then the second one still on the IB, your revenue to RWA target. Is there any number that you would like to reach, especially in comparison to peers? Thank you.

Anna Cross

Thank you for those two. So our expectation for the proportion of RWAs in the IB remains intact. You know, we want to get to the position where that is circa 50% by 2026 and I just want to highlight that's not a magic number, that's not expected to be the optimum balance for the group. It's the point in time that we think we can reach. So you should expect us to keep the RWAs of the Investment Bank broadly flat to where they have been, not just for the last year, but

for the three years actually. And specifically, you're going to see some quarter to quarter changes. That will come from two things. There's a natural seasonality again to the business. And also, as I said before, a large proportion of our business and our RWAs in the Investment Bank are dollar denominated, so FX moves that around quite a bit. You might remember that it went down by broadly £6 billion between Q2 and Q3. Then went back up by £6 billion between Q3 and Q4, which was FX driven. So it will move around to that extent, but just to remind everybody that the FX movement on RWAs doesn't impact our capital position.

In terms of return, or revenue over RWA, we see this as a key metric for us. It reflects not only our drive to increase the capital efficiency of the individual parts of the Investment Bank, but really for us to optimise capital across the Investment Bank and deploy capital on a flexible basis where those opportunities occur and you will see us do that increasingly. Actually what we've seen year-on-year is a 30 basis points improvement in that number. We've given some guidance for the [Investment] Banking business.

Marina Shchukina, Head of Investor Relations

[For the Investment Bank, it's increasing versus 2023, which was five and a half percent. For Investment Banking, they said in October, to increase from the 2019 level.]

Anna Cross

Okay, thank you.

Guy Stebbings, BNP Paribas

Morning. It's Guy Stebbings from BNP Paribas Exane. The first question was on Tesco and costs again. Just to check some of your prior comments, so the £360 million run rate costs which moves a little bit higher in the short term. You then said, at some point, we should be thinking about the cost income ratio as closer to the USCB. I'm not trying to pin you down on timeframe or anything like that, but in very broad numbers terms, that's sort of £200 million type costs that should be coming out versus 2025 and in due course. Is that how we should be thinking about it?

And the second question was just on the Group RoTE. I think there was a question on the call around this, but just to check that the Group greater than 12% RoTE for 2026 includes the AA portfolio sale gain. I appreciate you don't want to size that gain at this stage, but you know we weren't necessarily expecting that when the guidance was struck. So we just check you would expect to still deliver greater than 12% RoTE, excluding that gain, or is that not really how you think about?

Anna Cross

Okay, thank you for those two, Guy. I mean, our objective here is a cost income ratio. So, I do expect the absolute cost of Tesco to come down. I'm not going to give you a number, but I also expect the income to start going up as we drive that business, per the opportunity that I said before. So think of it as additive to RoTE, think of it with a relatively low cost income ratio in comparison to the group. Over time, I'd expect it to get there, and actually what Venkat talked about was three stages in that progression. So from sort of 2027 and beyond, you're really going to start to see us going towards that level. But this is going to be part of Barclays UK as a whole.

In terms of Group RoTE, [our] guidance remains intact. As I said, at this point in time, I don't know what that gain is going to be. And actually I would expect some offsetting headwinds within that business within that year, just from the step down in volume. I'm not expecting a lot of costs, moving the portfolio out isn't going to cost us in absolute terms any material amount, so that's not really what I'm talking about. We just need a bit more time in order for that to be firmed up. So because we're not changing the overall guidance for USCB and we expect that to be in line with the Group, we still expect to deliver more than 12% RoTE for the Group as a whole. Just to reiterate it is greater than 12, that is our expectation. Thank you Guy.

Sheel Shah, JP Morgan

Hi, Sheel Shah, JP Morgan. Just two quick follow-ups on the US cards business. Firstly, when you're looking at the historic partnership opportunities of $40 billion and the 15 number of deals a year, how many of those do you think sit within your risk appetite and your strategy, just to get a view on how this could look going forward?

And secondly with AA going towards a single issuer model, do you think this is the trend that we should expect amongst other issuers and if that was the case, would you look to then participate in these deals?

Anna Cross

Okay, thank you for those. The first is quite difficult to answer really, without seeing the details of the portfolios that come up, but you should expect us, as we said, to want to do more in retail proportionately. The retail market and the travel and entertainment markets in the US are broadly the same scale. We've got a good market share in travel, I think it's around 12% from memory and a much lower, low single digit share in retail. So you should expect us to sort of be biased towards that retail side. That being said, we are very focused on the credit quality of this portfolio. You've seen over time actually, even though we've had different portfolios within there, the FICO of this business overall has been about 740 for a long time. So when I talk about a slight movement in our expectation of risk, it's not a massive wholesale change there at all.

We have a relatively conservative risk appetite for this business and actually, one of the things that really works here is where we are providing consumer banking services to existing Investment Banking clients. That works extremely well for us, the Group, and again, you've seen us do that through last year. A good example is Wyndham, a long standing Investment Banking client and we renewed that early, directly with Wyndham and that one didn't actually go to market. So that breadth of relationship is important to us.

In terms of single issuer, there are a small number of very large programmes in the US, so Costco, Walmart, Delta, American, and typically they do go to single issuers. Things of that scale are unlikely to be of interest to us, just because of the concentration risk associated with them. We have an appetite to grow this business, but it's capital hungry as we said, you know, we want to be able to share that risk with external partners as we went through in 2024. We can see that business being $40 billion, but I can't see it necessarily being $100 billion, put it that way.

Okay, thank you.

Amit Goel, Mediobanca

Hi, thank you. Amit Goel from Mediobanca. I've also got some follow-ups, just on the USCB business. So one initial comment, I think you made that you'd like business to get to mid-teens [RoTE] beyond 2026. So just want to check how you think about getting there? You know, we're not getting the repeat of the gain in 2026, we've got the higher risk weights. The market seems to be getting a little bit more competitive with maybe a bit more economics going towards some of the partners. So, just curious how you're seeing that step up.

And then secondly, if you give a little bit of colour in terms of the RWA regulatory impact, where I guess the estimate was unchanged post the AA piece changing. So just curious the moving parts there or how you're thinking that's going to be repaid? So that's just on the AA part.

And I had a second question just on the BUK fee line, I just wanted to just check in terms of what you're thinking. I think the guidance is for greater than 250 million per quarter. Obviously that's a step down versus the kind of Q3 / Q2 rate, but better than Q4, which was impacted by securitisation. Just wanted to just get a sense of how much should I anticipate ongoing securitisation type effects? And how to think about that line going forward? Thanks.

Anna Cross

Okay. Thank you.

Okay, it's definitely cards day today. So USCB, how do we get to mid-teens [RoTE]? Well, I think about four factors there. The first is NIM that we talked about this morning already. So the repricing that we've done already and the funding costs are the major factors there. And also this move towards a higher risk adjusted return more generally, as we morph the portfolio and rebalance it away from being quite travel and entertainment dominant.

The second one is volume, as I've talked about here, you've got a relatively fixed cost base. You know a good example of that is with GM. I said we're not going to have to rebuild all the capability that we had to do for GAP. So you've got the ability, as you onboard more volume, your marginal cost comes down across the complex.

The third is capital efficiency. So you're right, clearly we have some degree of regulatory drag here from the IRB model. So you should expect us to pursue further opportunities for capital and risk sharing with external parties as we did in Q1 with Blackstone which was successful. You should imagine that we're going to do that again.

Finally, costs. It's really interesting to reflect on where this business has come from, as we think about its efficiency. You know, if you're running travel files with thousands of dollars per account, your ability to handle that manually is significantly higher. As you move into an environment where you inherently have smaller balances per account, you want to be more and more digital. So if I look at the digital interactions in that business, they’re at 93%. Now that's improved, we expect that to improve by a further 10% this year. If I contrast it to BUK, I mean BUK would be 98 / 99% in comparison. Now you might say, well BUK is not a good comparison because it's clearly a retail bank, and therefore you're going to have current account activities that are [generally] higher, but actually our German cards business wasn't that different. So we do think there's an opportunity here for us to increase, not only the efficiency of the business, but actually the customer experience by making more of the activity digital.

So it's really through those four steps that we think we can get to, first, in line with the Group. And then secondly, pushing on to the mid-teens [RoTE].

And then in terms of the $16 billion, it remains our best estimate and the reason I say that is of course, we are expecting AA to fall out of the portfolio, but I'm also expecting other things to go back in. And the thing that's somewhat uncertain is the timing. We know the timing of when we will have built that model by, but the timing of the approval of that model and therefore the implementation that I would expect to follow that. Typically, once we've got approval around the model, it takes us around six months say to implement it. So it's the timing really. So the exact size and shape of that portfolio at the point of implementation is not entirely clear at this point in time, which is why we're saying the best estimate we have is the one that we previously had, which is we would expect the portfolio to be about the same size.

And then finally on your question on BUK fees. This line does move around a little bit because you've got a few things going on there. You've clearly got securitisations, you've got debt sales and various other bits and pieces. The best estimate I can give you is greater than 250, which is what we said in in the past. I wouldn't expect a lot of securitisation in this business. And Dan might want to comment on this. This is part of the portfolio that we have around risk transfer. It's at a true sale risk transfer. So expect us to do it episodically, as we dynamically manage the balance sheet, but Dan you might want to add.

Dan Fairclough

I think periodic is the right sort of thinking. Obviously the one in Q4 was specifically on a particular bit of the mortgage books, stage 2, stage 3 loans. And we'll do that on occasion, just to make sure that the risk profile is in the right place.

Anna Cross

But again, we'll call out, you know, as and when we expect to do so.

Amit Goel

Does the greater than 250 reflect some of those further actions?

Anna Cross

That's probably a bit too specific and I'd just go with greater than 250 on average and you'll be there or thereabouts.

Okay. We can go around again if there are further requests. Ed, here we go.

Andrew Coombs

Andrew Coombs from Citi again. Just to clarify two of the points you've made. So one on the costs. Thank you for saying you're comfortable with where consensus is for 2025. Just off my memory, I think there is a step up in cost in 25 in parts because consensus has higher litigation costs in. So could you just talk about if consensus has the right mix of costs as well? I'm pushing my luck here, but thank you.

And then secondly, just coming back to the USCB, the gain [on sale]. You've always talked about this J-curve effect on the US card revenue portfolio and obviously what we have is a gain is

going to drop out in 2027. You're guiding to the same level of receivables as you were previously, but now because you're going to be on boarding a lot more, is there a risk that actually the return profile in USCB, and even potentially the Group, goes down in 2027 versus 2026?

Anna Cross

So in terms of 2025 costs, I would say I'm comfortable with the total. I'm not going to make any specific comments around litigation or otherwise, but broadly comfortable with where the total consensus is.

On the USCB gain and the J-curve. We do expect a J-curve as we onboard new balances in the US. Typically what happens is you've got upfront marketing, you've got day one impairment and then obviously the capital going out on day one and the earnings come thereafter as the customers build their balance. What creates lumps and bumps, if you like, in the RoTE profile is where you stop and start that acquisition flow. So to the extent that we continue to actively acquire as we have been doing in the market, I would expect that to be less impactful. The specific impact of bringing on new partners, it depends. So in some cases, you're bringing on a back book where you've already got a portfolio which is earning at a reasonable RoTE, as we did, for example with GAP. And then there are some like Breeze, they start from scratch. So it depends on the specific pathway.

In terms of RoTE aspirations for 2027 versus 2026, I'm clearly not going to give you additional guidance here, but you should tell from our overall tone that 2026 is not, we believe, a resting place. We're ambitious for the business and we want to keep pushing the RoTE on a consistent basis upwards.

Ed Firth

Thanks so much. Can I come back to the whole issue of growth and I guess growth in the UK economy, growth in your lending. It's obviously a huge theme with the new government. And I was talking to one of your peers last week. I don't want to put words in their mouth, but broadly speaking, they were saying there's nothing the government could do because there's no demand. So, however much regulation changes doesn't make any difference, which I guess the government will be quite surprised by. So, if I look at your lending growth, even in the second-half, if you annualise, it’s only 1.5%, which is very little. Provisions across the sector is near zero. Everybody is massively below their normalised provision rate and I guess looking at that, a man from space would look at that and say clearly you're not lending enough. Clearly you could lend more, take more provisions, support the economy more. The UK would grow more. What is wrong with that analysis and if it's not wrong, what can be done to actually get the sector lending again? And by lending, I mean 3, 4, 5 percent a year, not 1.5%.

Anna Cross

Good question Ed, one that we've discussed actually with quite a few in investors on the road. You know we remain optimistic about our ability to grow within the UK economy. In part, because we are pushing on areas where we have lost market share. Or indeed didn't have it, for example, like High Loan to Value mortgages. You can see that in our ability to pull in additional volumes in cards. I mean, [bringing on 1] million [new] cards is the most cards we have written since 2012, in this environment. And that was actually through us improving our customer journey. So this is not just all about pricing and risk, it’s actually about the ease in which you

interact with your customers. The same is very much true about our corporate customers, if you recall what Matt [Hammerstein] was talking about when he did his deep dive on the UK Corporate Bank.

That being said, we would not expect loan growth for the market as a whole to perpetually outstrip GDP. That seems unlikely. But clearly, loan growth and reinvestment and productivity should be the start point to grow GDP more generally, and we agree with the government's stance on that.

I would also agree with you that the level of provisioning, the level of deleveraging that's taken place across consumers and across corporates has been very extensive post Brexit. Coming out of COVID and affordability squeezes, both on corporates and individuals has clearly had an impact and we still see a lot of that behaviour now. So when I look at our spending because about a third of the GDP of the UK goes through our systems everyday so you get a really good view of this. And you can see that customers are spending, but then they're paying it off and that's all the way through the risk stack. So there's not a differential between the top and the bottom risk decile, so that behaviour is relatively unusual.

We're starting to see smaller changes, so total spending is still below CPI, because for people to want to borrow, they need to want to spend. But you're starting to see an increase in non-essential spending. So that's definitely coming through in the data, which is helpful and there are also other things that I would point to.

Firstly, clearly from a budget perspective, we've called out the impact for us, which is not a large absolute number. For some sectors of the corporate environment, it is more significant and therefore they are starting to lean into what productivity investments they might want to make, that is a good sign. Secondly, I would say the housing market and the mortgage market generally is healthy. You've had pretty consistent, roughly 2% HPI growth, again with some lumps and bumps over the last few years. Demand is good, real wages are going up and I think you see that playing out in demand across the housing market. Again, that's good because there are follow on implications of that into retail, white goods, furniture, goods and services more generally. So I think the signs are there. I think 2 things are important.

Firstly, the commitment to lend. We'd established that before the change of government and we haven't changed our mind. I think the second thing is some changes in regulation the government are talking about. We were asked on the call about mortgages. There are things around the edges that would certainly help and the simplification of regulation would also would help, I think.

Ed Firth

But I mean, I'm assuming you don't approve every mortgage application, so you must be rejecting some. I mean is there not capacity? When you look at that, is there not capacity to be, given your credit loss profile is extraordinary, there must surely be capacity to ease that and accept more? I guess the others that are related to that. I saw the Bank of England talking about moving the LTI limit on mortgages from 15%, but none of the UK banks are anywhere near 15%. You could make it 100%, it's not going to change anything. It seems to be there's a culture of very low appetite to risk, which I can understand. I can understand where that comes from, given

what happened 10, 15 years ago. It seems to me that you guys are going to change and say, actually we are going to accept lower credits, but nothing much is going to happen.

Anna Cross

We've meaningfully changed our profile in mortgages. So, you know, last year about 15% of our flow was high loan to value. That's meaningfully higher than it has been in the past, which had been around 9% [in FY23]. And that was really bringing Kensington to bear and that's sort of more advanced risk capability within the market. I take your point on LTI, again, we discussed this last week. It feels like the binding constraint is not LTI, it's actually affordability. So there are two hurdles if you like.

One is the portfolio or a portfolio flow point. So this 15% of LTI over 4.5x. In the current environment, certainly for our flow of lending is not really biting. The one that is more impactful is actually how we test affordability and stress affordability on the way in. You're talking about rates, given regulation, between 8 to 10% typically. So that's clearly having an impact. And first time buyers are really important to the health of the housing market more generally. So yes, that's the one we would be more focused on.

Okay. Any final questions? No? Well, thank you very much for joining us today. We really appreciate seeing you in person. Hope you stay well and we will see you very shortly, because Q1 comes at us very quickly. So thank you and see you soon.

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