

**Barclays PLC H1 2022 Results****28 July 2022****Results call Q&A transcript (amended in places to improve accuracy and readability)****Robin Down, HSBC**

I suspect you're going to get a raft of questions on margins and costs. I'll leave that to others, but my two questions, the first one, you've kind of given us the FX impact on the cost base of around £300m, I was wondering whether or not you would be prepared to give us the revenue equivalent number, or, failing that, whether you could give us some sort of indication as to if we use the broad 75% cost-income ratio of the international bank, whether that would be a good way of getting a kind of proxy for the revenue benefit that would match up against that FX cost movement?

And then, the second question, probably taking a bit of a step back and a broader question, you're still going for a greater than 10% ROTE target for this year, despite the additional litigation hits coming through in Q222. When I look at consensus, I think it's around 8.3% for this year, there's a really substantial gap between where you are and where consensus is, so can I just clarify, to make sure you're not excluding anything from that 10% ROTE calculation?

And secondly, when you look at consensus, are there particular lines you look at and you think, yes, the analysts have got that completely wrong? Obviously, you're giving us a cost base, so it's not around costs, but whereabouts are you looking? Is it tax? Is it the revenue lines? Is it the impairment lines? Or a combination of the three?

**Anna Cross, Group Finance Director**

I'll take both of those, then I'll hand over to Venkat. You're not the first person to ask us for those FX impacts. I'm not going to throw out a number on this call. It's something that we're very conscious of in the context of the movement in the dollar, so it's something that we'll certainly consider for future quarters. So I hear you, and understand that you would want to understand that point.

On your second one, you're right, we continue to guide for greater than 10% for this year and ongoing. The key difference that we see is really around revenue momentum. We've seen 10% [income growth] in the first half, and it's very, very broad-based, Robin, so we're looking at a recovery in our consumer businesses, both in the UK and in the US. We're also seeing a recovery in our businesses that are actually geared to the nominal economy, like Transaction Banking and Payments.

And whilst we may see some moderation in volatility, we're pleased with the market share gains we've made across Markets, and if that volatility were to dissipate, then we would expect primary issuance to come back. So it feels like the key difference between ourselves and the outside world is really around revenue.

Of course, we also do think that impairment will remain lower than pre-pandemic, and again that's another piece of guidance that we've given. So from our perspective, we remain confident in that flight path.

**C.S. Venkatakrisnan, Group Chief Executive**

Yes, I would like to emphasise what Anna just said. We talk about having built a diversified business and continuing to do so, and sometimes what that means is if something does relatively less well, something else offsets it.

In this quarter, unusually what you've seen across all four lines of business is a sense of revenue strength and momentum, which we think, for the shorter term, will carry forward. So you're seeing this top line growth in Markets, even adjusting for the securities over-issuance, you're seeing top line growth in cards and payments, as Anna has said, and in our UK retail bank.

If there's any place where there's been diversification, meaning something offsetting something else, it's within the Corporate & Investment Bank, where the Banking numbers have clearly fallen off, but they've been more than offset by what's going on in Markets. So I think you should get a sense of confidence in the way the business has been performing in the first half of this year.

### **Joseph Dickerson, Jefferies**

How are you thinking about the cost trajectory for 2023? Because you've had quite a lot of noise in the 2022 base, whether it was the L&C charges that won't recur, possibly higher investment spend around Gap and so forth.

Because it's interesting, your comments on the broad-based revenue momentum, it seems like you'll have a sustainably higher base going into 2023, and when I look at the 2023 numbers, the consensus pre-tax looks a little light, because it doesn't really embed any revenue growth. I'm just wondering, you've talked about some of the momentum on the top line, but how should we think about what drops out of the cost base next year?

### **Anna Cross**

So you can see what we've done in the first half, so income growth of 10%, operating cost growth of 2%, so hopefully that helps you understand that our real focus here is operating leverage. And whilst we've guided to costs up in this year, you'll see that the moving parts are actually FX, which is net P&L positive, and L&C, which is largely offset in the income line.

If I take that into next year, I'm not going to guide you at this point in time specifically on costs, because there are too many moving parts and too many decisions, however, let me help you understand how we think about it. Inflation effects are obviously building. Those inflation effects, however, also impact our income line, whether that be through the transactional businesses and payments in corporate, or even into the consumer businesses. But that's definitely a headwind.

On efficiency however, you'll see also in the half we've shown you what we've driven in efficiencies, and I would remind you that in our 2021 results we actually took two charges around real estate and around the UK transformation that we said we believed would start to benefit from the backend of 2022 and into 2023. FX will be what it will be. At the moment, it's a net benefit to the P&L, but a headwind in the cost line in isolation.

The income momentum though, here, is really important because it gives us the opportunity to invest selectively, whether that be in the three strategic priorities that Venkat's taken us through, or alternatively in structural cost actions which we've done episodically in the past. When we do it, we tend to have an eye on returns.

But if I just go through, business by business, in the UK, we've given you NIM guidance for the current year, that should indicate to you the momentum that we think that business has on the exit. You can see from the half-year that we're controlling costs, and we set off our transformation programme last year.

And of course, [much] of the income benefit that's coming through in BUK is coming from the structural hedge now, which obviously doesn't have a marginal cost associated with it.

In CC&P, you're right, what we've seen is a cost build ahead of any associated income. That's not just Gap, because obviously we've had costs for Gap, but the balances came in at the very end of the quarter, so we've not seen that benefit yet, but it's also true of the organic growth in the business where, as we restarted post-COVID, there's obviously the j-curve effect.

And also within CC&P, although it's much smaller, don't forget about Payments, which is geared to the nominal economy, and the marginal cost, again, of extending that business is not significant.

The hard one is the CIB. I've said before, Markets, we've seen a share of wallet increase but also buoyed up by volatility, then maybe offset with Banking if that volatility drops off, but here, don't forget the momentum we've got in our corporate business, particularly on Transaction Banking, which is geared, again, to nominal economic activity in the business, and is an accrual franchise business.

We will invest selectively in the CIB and, you'd expect us to do so in a way that helps us underpin the diversification that Venkat talked about. So hopefully that's helpful in terms of building blocks. We're very focused on operating leverage, as you would expect with the income momentum that we have, but also on returns. And just to remind you [of our > 10% ROTE target], and we'll use all the levers that we have in order to manage that.

## **C.S. Venkatakrishnan**

Yes. Just one piece of detail within all of that. Of course, I completely agree with the thesis and strongly endorse the thesis Anna's laid out. Within Markets, there's a part of it which comes from trading which is amplified by higher volatility, and as volatility goes down, as Anna says, hopefully the Banking market picks up, but also within the Markets business, there's a substantial growth we've had over many years in our financing businesses, in [both] Equities and FICC.

And I think as rates are rising and spreads are widening, there is more scope, looking forward, for revenue gains from fixed income financing, where we have a leading market share, as that part of it recovers. So even if volatility dampens, at higher levels of rates, there are parts of the Markets business that will continue to do well, I hope.

## **Omar Keenan, Credit Suisse**

I've got two questions, please. One on capital and one on Consumer Cards & Payments. If I start off with capital and I look at the CET1 ratio, if I take off the 40bps for Kensington and pensions, and add 20bps for the roll-off of the hedges [associated with the rescission offer], then it looks like the ratio is around 13.2% today.

And I see the buyback programme that was announced today clearly expresses your confidence in the capital position, but I was hoping you could give us your thoughts around the sensitivity of the ratio to rating migration? If we have a weaker economic environment next year, perhaps with lower house prices or corporates that have some rating migration, then if you could give us an idea of the sensitivity of the ratio to that, that would be really helpful.

And my second question is on CC&P, where the result was very strong in the quarter. And I understand the drivers behind the NII, but if I look at the other income and annualise that, that seems like quite an interesting number relative to where consensus is. Could you give us any steer about whether all of that figure is recurring, and we can take it forward?

## **Anna Cross**

Why don't I take that. So you're right, in the latter quarters of the year, we are expecting a pensions headwind. Just to remind you that that is timing. It's always been in our capital flightpath, it's a timing event essentially pulling it forward into the current year.

On Kensington, we expect that to be around 12bps, and the buyback roughly 15bps. Going in the opposite direction, of course, we've got the roll-off of the hedges associated with the rescission offer, and that's about 20bps, and more than offsets the buyback that we've announced for the half-year.

Our position, as we look at the end ratio of 13.6%, we're very confident in the capital-generation of the businesses, and I go back to what I said before about income momentum, the impact that we've had in the quarter from the rescission offer itself we would not expect to repeat. Some of the drawdown in the ratio has also been driven by volatility in RWAs and also business growth that we're seeing in the income beat. So we're very comfortable with the ratio at 13.6%, and that's why we've announced the buyback.

Just to remind you, generating greater than 10% ROTE is equivalent to [c.]150bps of capital generation. We are confident in continuing to do that, and we'll deploy that across maintaining an appropriate ratio, investing in the business, and returning capital to shareholders, as we've done in Q22.

Just picking up on your CC&P comment, what we're seeing in CC&P is not only balance build, but we're also seeing increased purchase activity in the US. That doesn't always translate through to balance build, because customers are being cautious in the current environment and they're repaying at very high rates, but it does mean that we are generating interchange income, which is what you're seeing coming through there.

So to the extent that we see a continuation of that buoyant purchase activity which, in part, is driven by nominal economic activity, so inflation is a bit of a tailwind there, we would expect that to continue.

## **Omar Keenan, Credit Suisse**

Are there any comments that you can make around the sensitivity to rating migration in RWAs, if we have a weaker economic environment next year?

## **Anna Cross**

Yes. We're very mindful of it. I wouldn't give you a sensitivity here. At this point in time, we're actually seeing quite the opposite. We're seeing an improvement in stock quality. So if you look at our RWA tables, we're actually seeing things drift back the other way.

Clearly, if we see a downturn in the economy, then we will see some RWA inflation, but that's not reflected either in the macroeconomic variables that we're using as consensus, nor indeed what we actually experience in the real effects coming through, so delinquencies are low, the watch lists are very low. So yes, you're right, it could be a factor, but it's not something that we are seeing at this point in time.

## **Omar Keenan, Credit Suisse**

And the £464m, we can annualise that number, there's nothing exceptional in there?

## **Anna Cross**

In terms of the other income?

## **Omar Keenan, Credit Suisse**

Yes, exactly.

## **Anna Cross**

The only thing I would call out, is FX. So just be mindful of that. I would say the underlying driver is purchase activity, which is obviously driven by the increased number of customers that we have. You should annualise that, but the FX will be what it will be.

## **Rob Noble, Deutsche Bank**

Can you give us a breakdown of the impairment charge that you took in the quarter? So what's the day-one impact of the Gap portfolio, the impact of the economic outlook changes, and any change to the PMAs, and then what the underlying charge actually is? And also, how big was the mark against the leveraged finance portfolio in the CIB?

And then secondly, you issued a couple of high [cost AT1s] this quarter, so what's the plan for issuance over the next 18 months from AT1s? And as rates rise, should we expect the coupon cost of your AT1 portfolio to rise as well?

## **Anna Cross**

I'll take both of those. In terms of impairment, we're not going to talk about impairment associated with any particular partner in the US. However, what I would say is that the PMAs are completely unchanged from the prior quarter. We've maintained our £1.3bn.

So what you're seeing flowing through is the underlying charge which is elevated in part by that Gap portfolio. We disclosed to you the scale of the portfolio, so I'm sure you would be able to put together some estimates around that.

In relation to the marks, we haven't disclosed the marks, that's not something we have done or will do. However, here's how I would think about it. The marks are included in the Corporate Lending line. Last quarter, we talked to you about the hedges against the syndicate portfolio, we'd increased those hedges, and that the cost of those hedges had also increased, so you saw a step-down into Q122. That's continued to happen in the second quarter.

So given the risk in the environment, those hedge costs remain high and we are hedging a higher proportion of the portfolio. And then, the other thing that's going on in there is the marks. So hopefully that will help you compare the two quarter numbers. And just remember, there are two things going on in there, there's the marks plus the increase in the hedge.

And then the last point, I would say around the AT1s, we are a programmatic issuer. We'd expect to issue around £9bn [of MREL] in the year. We look across our full stack, we look at AT1, Tier 2, Senior, and we'll continue to do that in H2. The two that we did in the quarter did have a higher headline rate, but remember that the underlying swap cost is something that we hedge.

So what you should be focused on is actually the margin to SONIA on those transactions. And that is not higher than the portfolio that we're actually carrying as a whole. So I wouldn't think about it as markedly different from what we're already holding.

**Jonathan Pierce, Numis**

Just one, please, and it's just to check my maths on something. The structural hedge revenue in the second quarter, I think it's slide 35, shot up even more than I was expecting. It's up about £120m, I think, on Q122. Historically, you've told us that 60% of that falls into BUK, so that would be about £70m if that's right, but the BUK NII only went up £50m, or thereabouts.

Obviously, you've got the mortgage headwinds, you've obviously got the base rate increases on the unhedged deposits in Barclays UK as well, but is that maths still right, that 60% of the structural hedge is falling into BUK? Or has something odd happened in the second quarter, where more of this has gone into CIB?

**Anna Cross**

The structural hedge income did go up significantly. That's not just the ongoing rolling of the hedge, but it's also the fact that we've extended the hedge. So we've put on an additional £18bn in the quarter, and obviously that's gone straight in at current rates, so it has quite an impact, quite an eye-catching impact.

We are talking there about the gross income on the hedge. Within BUK, yes, we do see [c.]60% of the benefit flowing into there, so I'm not sure how your maths is working, but perhaps we can help you with that offline.

**Jonathan Pierce, Numis**

Yes. It was just simply 60% of the £120m improvement would be about £70m in BUK, but BUK NII didn't go up by £70m, it went up by £50m. I guess the new hedges you've put on, you've got the swap cost against that, so you're not getting the full 2.5% five-year rates, you've got to pay the floating leg on the new hedge, but still I'm very surprised that the NII in BUK only went up by £50m. I'm just wondering if there are things going on that I've missed.

**Anna Cross**

I guess the other thing to think about in there, is the impact of mortgage margins. It's not just the savings rates and the structural hedge that are going on. You've got mortgage margins which continue to be extremely competitive. We're also seeing impacts on other smaller products, maybe Business Banking, Cards, etc. So you're right in isolation, but don't forget about the other product impacts.

**Martin Leitgeb, Goldman Sachs**

Firstly, on the outlook for credit card balances, both in the UK and in the US, obviously strong progression quarter on quarter, and I'm just wondering how you think about these opposing outlooks, in terms of one coming out of pandemic restrictions, which should be supportive of card balances and, secondly, obviously heading into what some believe is an economic slowdown. How do you see the prospect for credit card growth, both in the US and the UK, as we head into 2023?

And secondly, I was wondering, on mortgages in the UK, you mentioned pricing remains competitive, have you noticed any discernible change over recent months in terms of peer group behaviour? Is pricing stabilising, improving?

**Anna Cross**

In terms of UK cards, we guided at Q122 that we would expect that to be the low point of UK card balances. That's broadly what we've seen. There are a few behavioural factors in there, though, to consider. Firstly, purchase activity, both in quantum and type, is up. So we are seeing the return of the kind of purchases that we were looking for, for example like travel.

But customer repayment rates remain very elevated. That's very rational in the current environment, and probably speaks to that offsetting impact from economic uncertainty that you're talking about.

We've also seen some growth in promotional balances. We are participating in the 0% balance transfer market, but we're doing so with a real eye on sustainable returns. So you won't see us at the top of those tables. We're very conscious on returns as we participate there.

And what you will notice, in our card income over time, is what we've mentioned before, about launching additional products that are more focused on spend versus lend. So I think once you've seen balances stabilise, the nature of those balances is changing quite considerably.

Looking forward, I think we probably expect repayment rates to remain elevated, given the uncertainty, and I think that the increase in customer spending is probably going to be more muted than, perhaps, we might have expected six or nine months ago. So, I think what you're going to see is probably a little bit of muted growth on those card balances in the UK.

As relates to mortgage pricing, we've seen mortgage pricing continue to pick up as a headline matter in response to rising swaps. There is always a lag, but it has broadly tracked those swap rates with that lag. What really matters though is the difference between front book and back book margins. Front book margins, I would say, broadly, across the industry, are below the portfolio margins.

So, I would say that front book rates are delivering an attractive return for us, so we're still very pleased with the market. But just the arithmetical effect on the overall portfolio will be net negative between here and the year-end, we would expect. And that's all included in our full-year NIM guidance, which you'll note that we've upgraded today to be between 280bps and 290bps. So, whilst there's a mortgage drag, there is, obviously, the opposite impact of that in liability margins and, of course, the structural hedge.

### **Chris Cant, Autonomous**

Could you give us an update on the payments opportunity that you talked about at Q121? At that point, you said you saw a £900m opportunity there on a three-year view. And just conscious of the very strong year-over-year growth we've seen in CC&P payments, so how much of that £900m is now in the run rate? And has the assessment of that £900m changed at all up or down?

And then if I could ask, on FX, so you declined to answer an earlier question on this. You got several questions at the Q122 Analysts meeting on FX. What is the reason you feel unable to give some proper colour on FX splits across your P&L to help us understand this better? Is there some competitive concern that prevents you from trying to help the market understand this, or are you worried, perhaps, that we're going to be able to pick apart the performance of the group more clearly if we have the currency split?

I'm genuinely confused as to why you won't provide some colour or disclosure here, given that FX is something that the market is, obviously, trying to factor into numbers. And you've given us the answer for the cost line, and presumably, you want us to be able to factor FX into the revenue line, but we're not really getting much information to help us model that out. So, what is the reason you feel unable to give that kind of colour?

### **Anna Cross**

I'll take those questions. So, in terms of the payments opportunity, we're pleased with the progress. We're broadly on track with that target. We really very frequently talk about the [merchant] acquiring business. That's the one we tend to focus on, but we're also really happy with the progress of the two other parts of that business, so don't forget, in the corporate issuing business, which is also geared for economic nominal activity through T&E, etc. So, that's growing nicely.

And I'd also call out the third strand, which is more around the value-added services that we provide through Payments. So, for example, the e-commerce gateway that we launched in Q421, and obviously, benefit from broader trends, in terms of payments moving online. So, the [CC&P] Payments element is, obviously, performing well, and then, the other part of it is what we see going through, for example, Transaction Banking, which is also performing well as corporates continue to, if you like, re-emerge from COVID. We're seeing strong nominal growth, which is underpinning FX payments, trade finance, etc, which is all flowing through in that line.

On FX, I hear you. I completely understand. Hopefully, you've taken, or you've seen today, that we've made a step towards what you would like to see, in that we are not just talking about FX in our costs, but actually, the impact on the cost/income ratio. So, we will come back to you. I have no doubt that you are able to analyse the individual parts of our

business, and of course, we'd like to help you do that, so just bear with us. But hopefully, the cost: income guidance that we've given on FX is also helpful to you.

### **Edward Firth, KBW**

The first one on the BUK margin guidance. If I look at the bottom end of your range and just, I guess, partly checking maths, but it looks like we're talking about a mid-290bps margin for the second half, which seems to imply that your margin is picking up in the second half, or the rate of growth is picking up in the second half.

And I guess, that's a surprise, because a lot of the other banks are giving messages about how they expect things like deposit betas to be higher as interest rates go higher. The markets, they say, used to be more competitive, and therefore, we should expect to see the rate of acceleration slow.

So, my first question is, what is it about your book that means that the margin should be accelerating in the second half, not slowing, if I've got my maths right?

And then I've got a second question for Venkat. Really, it's about the BUK cost: income ratio, because it's over 60%, which is probably a good 10% higher than any of your peers, or really any sort of retail and commercial bank that I can find in the UK.

And it's really difficult, externally, to see why that is, because you have this sort of central charging structure, which just dumps a load of costs on them. So, I guess, my question for Venkat is, now you've had a bit of time to look at it, are you happy with the cost: income ratio in BUK? And what's your assessment as to why it is so much higher than peers? And what do you think might be possible, in terms of actually getting that more in line with everybody else?

### **Anna Cross**

Okay, so why don't I take the first one. So, we've guided up from 270bps to 280bps, to, now, 280bps to 290bps, so you're right, we are expecting some momentum from here. There are three factors in there. Obviously I can't comment on the mechanics within anyone else's book, but I can tell you how we see it.

In mortgages, as I said, it's competitive. The front book rates are lower than the back book rates. We think we're getting a good absolute return, so you should expect us to continue growing that. That is net headwind, but on the other side, we've got margin widening on liability. Those two, net, are positive to the margin. We would expect pass through to increase from here. We've called that out before, simply because the pathway from 1% to 2% [base rates] is quite different from the pathway from 0% to 1%, so that's absolutely included within our guidance.

I think the other, and the third, very important factor for us is, obviously, the structural hedge momentum. So, we've extended the hedge, and what we are seeing happening in that hedge at every single month, you've got one sixtieth rolling off, broadly five-years-ago rates, so think 2016/2017 type rates. And now, refixing on the current curve. That is considerable momentum to the NIM, as we see it. So, it's bringing those three things together that gave us the confidence to guide up to between 280bps and 290bps.

### **Edward Firth, KBW**

I know this is a slightly fatuous question, but everybody goes on about deposit betas. Can you give us some sort of sense as to what the shift might be that you're assuming for the second half? It's just trying to see whether you're making similar assumptions to other people or making markedly different ones. I guess, that's where I'm coming from. So, people have talked about 50%, above and below 50% passthrough into the second half. Can you give some sense as to where you might be in that spectrum?

### **Anna Cross**

Yes, we wouldn't give that guidance, and the reason I say that is, it's very nuanced, so it varies by business. So, as we're making those decisions, we're making them across retail and different products within retail. We're making them across the Private Bank, Business Banking, Corporate Banking, so it's very difficult to drill it back to a single number, given the nature of our business. We'll have an eye to our own liquidity in the competitive environment, and actually, we wouldn't talk about those things. We wouldn't think that that was appropriate as a competitive matter, to call out our commercial intentions on a call like this.

So, that's why we wouldn't do it, but the thing you should focus on is that overall updated NIM guidance. That's the most important thing, because we're taking all of our thinking, and we're wrapping it into that number.

### **C.S. Venkatakrishnan**

On the question on the BUK cost: income ratio, so the answer is, yes, I am comfortable, and there are a few reasons for it. First of all, obviously, the cost: income ratio has two parts, cost and income. On the cost side, we are going through a multi-year transformation of our business, greater amount of digitisation, more product simplification. So, that investment will pay off in the future, and that investment is elevating the cost: income ratio in the short term.

On the income side, arguably, there is a question of product mix. I think the point I would broadly make on that is that we have built for, even since pre-COVID and post-Brexit, a little bit more on the careful side, in terms of positive unsecured credit and lending, which will have an income effect on us. But, given the broader credit risk-return trade-off, I feel extremely, extremely comfortable. And you will notice that the BUK ROTE in the first half has come to 17%, which is the region it inhabits during normal times. So, it's recovered back quite nicely to where it used to be.

### **Edward Firth, KBW**

Okay, well, when you say multi-year investment programme, what should we be thinking about then? So, is your expectation that that will end at some point, and we will see the cost: income ratio improve then?

### **C.S. Venkatakrishnan**

Yes, I think it goes into 2023, so it's this year and next year, and it should improve. The other part of income, which is improving for us, but improves for everybody else, is, of course, the effect of interest rates and so on.

### **Guy Stebbings, Exane BNP Paribas**

I had two questions. So, firstly coming back to costs. Appreciate there's lots of moving parts and headwinds from FX and inflation and revenue benefits, but I think it's really important, or certainly very helpful, if we get some sense of the absolute cost figure for next year, accepting some of the variables may change.

If we start from the £16.7bn guidance and then annualise fully for the current FX, I guess, we'd be more like £16.8bn, maybe £16.9bn. If one then adjusts for the elevated litigation in Q222 and Q122 of circa £1.8bn, you end up with a clean run rate around £15bn, heading into 2023. If I look at slide 20 and the other ups and downs at the bottom right-hand side, you've got the efficiency savings as a benefit, but then business growth, selected investment spend, inflation, all in the other direction. I presume those headwinds are greater than the benefit from the efficiency gains.

So, are we talking about, under those scenarios, under current FX, etc, that costs next year are probably north of £15bn? I presume we must be absent FX reversals, or am I missing something or underestimating the efficiency gains? The second question was then just on the UK volumes, which went backwards in the quarter. I guess, looking forward, the mortgage market is slowing a little bit. Consumer spending outlook is quite uncertain. Business Banking activity was weak in Q222. I don't know if that was particularly impacted by Bounce Back loan drag, which perhaps is less painful in future quarters.

But how should we think about future quarters on total volume growth in BUK? Is Q222 a bit of an outlier, or is flat to down actually something we should be used to?

### **Anna Cross**

As I said before, I'm not going to guide to specific cost numbers for next year, nor income. There's a huge amount of potential outcomes here, in terms of inflation. Obviously, inflation effects will build, but I would remind you that inflation is also positive to our income line. We did set efficiency in train from 2021 and 2022, which you would expect we would continue, and which is additive to the numbers that we've already shown you.

However, because of the income momentum that we have, you should expect that we will lean into growth, but we will be very selective as we do that. So, as I say, given the uncertainty in the environment, I'm not going to guide now, but if you just consider those factors, that's probably the best guidance I could give you. But just don't forget about the impact of either the investments or inflation on the income line as well as the cost line.

In terms of BUK volumes, I guess, you're focused on the mortgage volumes. As we grow our mortgage book, we are balancing three things. We're balancing returns, we're balancing how we feel about our franchise, and we're also balancing operational capacity. So, you'll see us participate pretty much consistently in the market, but we will flex in and out, as we're trying to manage those three things. We're pleased with our growth.

I would say, I would expect net growth across the industry to be lower, simply because this is a market more dominated by remortgage than house purchase. So, we've definitely seen a switch there. And that's a business that we like very much where we tend to take a higher-than-normal market share. So, that market suits us. You might see a bit of that flowing through.

We have seen Bounce Back loans decline a little. That's what we would expect. That's, obviously, positive for margin as well.

And then the final thing I would say is, don't forget about ESHLA, which can create some somewhat noisy impact in the BUK asset line, simply because of the way we present it. But no concerns, in terms of the momentum, either in mortgages, or cards, [and as] I've talked about, we expect to be a bit more cautious there, and obviously, we still continue to see liability advances grow.

### **Guy Stebbings, Exane BNP Paribas**

Can I just check, on the Business Bounce Back Loans impact slope, in terms of the drop, quarter on quarter from here, what would you expect?

### **Anna Cross**

Well, as customers repay, we'd expect those balances to fall away. As I say, reduced balances, but they are fairly tight margins.

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

Just on capital really and how you think about it and manage it. You've got a number of growth initiatives like US cards, Payments, KMC and maintaining the Investment Bank rank. So, how do you prioritise those investments in growth, versus capital distributions? And then also, you're now in the middle of that CET1 target range. Are you comfortable operating and doing share buybacks anywhere within that range, or is there a particular level that you're more focused on?

### **Anna Cross**

As we think about managing our capital, we are balancing off maintaining ourselves in that target range with growth in the business and returning capital to shareholders. The good news is that each one of our businesses is delivering above costs of capital, in terms of its returns, so they are generating organic capital, business by business. And therefore, we're not having to artificially move capital around for organic growth, if you like.

As relates to those specific opportunities, what's really guiding us there is the three strategic priorities that we have. So, the two that we've announced so far speak to the first of those strategic priorities, which is next-generation consumer, which is why we've invested in Gap already, and are intending to invest in Kensington. So, I guess, we're looking to follow the strategy. You'll equally see organic investment within the CIB, which is around underpinning the sustainable growth in that CIB.

You don't see it called out as a headline, because it's organic and not inorganic, but we are balancing that investment. And in terms of your specific question about operating in the range, we closed at 13.6%. We feel good about the organic capital generation of the business, which is what's given us the confidence, in order to announce that buyback today. You'll note that, whilst we've announced that buyback, it is largely offset by the rollback of those RWAs from the recession hedge, which would actually nudge-up the capital ratio a little.

So, I'm not going to guide specifically in that range, but the evidence from Q222 should tell you that we are happy balancing shareholder return with proactive investment in the business, be that organic or inorganic.

**C.S. Venkatakrishnan**

Yes, look, I think I would continue to emphasise that very final point that Anna made. We've got good top-line growth across the businesses, as we said. Producing a 10% ROTE gives us 150bps of capital accretion. We think that that is sufficient to invest in the business and to deal with any regulatory drift, which we might have, in terms of capital rules, and to, obviously, return capital to shareholders. We've demonstrated that even in this first half, and that's the aim of the way the business is operating.

So, I would really emphasise that, getting the top-line growth, which you've seen across the businesses. You've seen strong performance, relative to others in many segments, including in FICC, and then, using that to reward our three constituents, if you'd like. So, on that, thank you very much, everybody.

**Anna Cross**

Yes, thank you, everybody. We'll see many of you next week at the breakfast. Until then, take care.

## Important Notice

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Barclays' management believes that the non-IFRS performance measures included in this document provide valuable information to the readers of the financial statements as they enable the reader to identify a more consistent basis for comparing the businesses' performance between financial periods, and provide more detail concerning the elements of performance which the managers of these businesses are most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by Barclays' management. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. Non-IFRS performance measures are defined and reconciliations are available in our results announcement for the period ended 30 June 2022.