

Barclays PLC Q1 2022 Results**10 May 2022****Analyst meeting transcript (amended in places to improve accuracy and readability)****Anna Cross, Group Finance Director**

I'm just going to make some opening comments and then we'll crack into some questions.

We're very pleased with our Q122 results. The diversified business model continued to perform and we delivered PBT of £2.2bn, RoTE of 11.5% and EPS of 8.4p. That was despite having a disappointing level of L&C in the quarter of £0.5bn. As a result of all of that, you'll see that we're now targeting a RoTE of greater than 10% this year.

On income, we delivered a very broad-based and strong performance across many of the divisions. 10% [income] growth and growth in all three main operating businesses. Our costs increased 15% but that was largely driven by the L&C charges. After stripping that out, we had operating costs up 1% against income growth of 10%. The cost outlook that we gave was £15bn all in, and when I mean all in, I mean everything. That's including L&C, it's a statutory cost number. Just to remind you, that was struck at a GBP:USD of 1.31. GBP has weakened since then, but just to remind you again that, actually, GBP weakening is net positive for our P&L. Though we might see some pressure on costs, we would expect to see a more than offsetting impact on revenue.

Turning to impairment, which was a small charge of £0.1bn. That reflects many of the factors that we've seen for a while now. Low levels of unsecured lending, maintaining fairly high coverage ratios, low levels of delinquency or signs of delinquency, so we feel fairly comfortable there. As we guided, our impairment is expected to remain below pre-COVID-19 levels in the coming quarters.

On capital, we delivered [a CET1 ratio of] 13.8%, towards the top end of our target range. Just a few points of note. We're very comfortable with our rate of capital generation. 10% [RoTE] is about 150bps [to the CET1 ratio]. Just a few more things, in terms of the outlook. We did our first tranche sell-down of Absa, that's worth about 10bps. You'll see that arise in Q222. The roll off of the hedges related to the over-issuance, we would also expect to roll off in Q222, that would add another 12bps.

Going the opposite direction, we've got the GAP acquisition, which will land towards the end of Q222. So, in Q222 itself you're going to see minimal revenue impact, but you will see the day one capital impact. Although, given what's happened to unsecured across the globe, that book size is a little smaller than we expected, so the capital impact will be less than the 20bps we originally indicated.

Then, finally, the acceleration of our pension deficit [reduction] contributions, just to remind you, that is only timing. And also, the second thing I would remind you of is that the pension fund is in surplus and we go into our triennial [valuation] from September. Going forward, taking all of that together, we are confident in the capital generative nature of the group.

I'm going to pause there and take your questions. But quickly, just to cover the over-issuance. I mentioned at the date of announcement, we've paused the buyback until we get through our discussions with the SEC in terms of refiling. They're ongoing, they're very constructive, we're making progress, so at this point we remain confident that we will be starting the buyback towards the end of Q222.

Alvaro Serrano, Morgan Stanley

A couple of questions from me, one on the investment bank and one on the retail margins.

On the current state of play of Markets, obviously my understanding's always been that a very oversized chunk of the business in general, not just Barclays, has been US tech. On the deal pipeline and trading in the Equities business, maybe you can give some colour, given what's going on now. How much of that pipeline are you confident will come back, including some of these firms with crazy multiples, that to my understanding were a big chunk of the pipeline? And also, for the Equities business, short-term volatility is good, but a bit beyond that short-term volatility, how confident do you feel in that business?

The second question is on the retail bank on the mix of deposits, more than just the deposit beta. It looks like we're going to go very quickly into reasonably high rates. Until now, I suspect clients were not bothering to look for term deposits or yielding products, but I'm sure you've done analysis or can hand-hold us. What chunk of deposits could end up going to term deposits, invested in gilts, or find their way into a high-yield product? Not just the deposit beta, but the overall mix. I don't know if looking back in history, you have something to share with us there?

Anna Cross

Let me start with the Investment Banking state of play. I'm not going to give any trading outlook, as you would expect. What I would say is that the environment remains quite similar to what it was throughout Q122. You'll notice from Dealogic, it's a difficult market to issue into. At this point in time, I think we'd say that the pipeline is still there, it's still strong. We're not seeing a huge amount of fallout from it, so no real change from what we described at the end of Q122.

And you're right, the flip side of that remains quite constructive for Markets. How long that particular set of macroeconomic circumstances prevails is difficult for us to tell. What I would say is that we feel like the franchise that we've built is better able to cope with those circumstances flipping around. We're confident with the progress that we've made. For example, if you look at Q421, FICC was not great, Banking was really good. If you look at Q122, it was the opposite way round. We're able to push these businesses forward and take advantage of the circumstances that surround us. It's difficult to give an outlook in this environment, but we're confident with the ability of the franchise to react, but the circumstances are very similar to what they were in Q122 and the pipeline's not really changed, not really moved.

In terms of the deposit question, it's interesting because deposits continue to build, even in the current environment. And you're right, we will reach a point as an industry where you would expect customers' motivation to switch funds around starts to increase.

We have never been a big taker of term deposits, we've never been a hot money bank. Even asking us to look backwards in history, that's not really been part of our deposit franchise because we've got a very strong current account book, in comparison to the size of our mortgage book, for example. That meant that we're probably less reliant on term deposits [than] we certainly have been in the past. That's not to say that we wouldn't expect the savings industry to start to morph towards higher returning products, that's exactly what we would expect. They may be term deposits, they may not be. They may be more franchise type deposits.

If you look at what we've done with the Blue Rewards Saver, that would be the kind of thing we might think about. But I think you're exactly right, you'll start to see rates change, not necessarily because they're changing on the instant access product because customers start to migrate away from those products towards fixed term or other high-rate products. It's really difficult to tell what that landing space would be like because the last time we were in an upward rate environment, we didn't have the kind of internet access that we do now. So, customers perhaps might behave in a different way.

The way we look at it, is we look at customers and try and assess what their excess level of deposits might be, or the level of deposits that may be beyond their operational requirements, but it's difficult to model, so I wouldn't make any specific points about the eventual landing space.

The other thing I would say is that we would also expect, in an uncertain environment, that customers will be cautious about locking their money up. That's the other thing that we've seen back in history, so I wouldn't be surprised if we saw that as well, but this is unknown territory.

Omar Keenan, Credit Suisse

I was wondering if you could help us with the proportion of costs that are in dollars, just so that we can try and think about what the impact of the weaker cable is going to be on costs? If you get to do that with revenues, that will be a bit of a help.

And, secondly, could you perhaps just frame your thinking around the COVID-19 overlays and the conditions that need to be seen for releases to happen there? And against that, how you're seeing the evolving environment for risk and cost of living that might necessitate overlays elsewhere?

Anna Cross

In terms of dollar cost, that's not a number that we've disclosed previously. Clearly it does have an impact and you've seen us work hard to alleviate that impact over time, just as we have inflation. I'll just remind you, it's net positive to the P&L, we're not going to start carving out that number. But just think about the overall guidance of £15bn, we'll continue to update that as we go. GBP:USD has moved, but it may easily move in the opposite direction, so we'll just see how we go and we'll come back to it at the half year. But we're broadly comfortable where we were, just noting that upward pressure, but if we do see it, it's net positive to the P&L.

In terms of COVID-19 overlays, just to remind you, £1.3bn of PMAs, are still out there. It's interesting you call them COVID-19 overlays. They partially were at the year end. We were definitely coming out of COVID-19, but as we looked forward, we could see inflationary pressures, but clearly not as much as we're actually experiencing. At the year-end we called out three things. We called out inflation, we called out the tail end of COVID-19, and we talked also about supply chain pressures. I think when we got to Q122, the environment was different again. Probably less concerns about COVID-19 specifically. Just reminding you that at the end of December, we were in the Omicron semi-lockdown.

So, less about COVID-19, more really about the macroeconomic uncertainty, and the biggest impact of that being inflation. I would say not just about consumers, which is the one we talk about specifically, but also reminding ourselves about how that can find its way into the corporate P&L. If you look at what's happened to supply chain inflation or purchasing inflation, that's seen some extraordinary heights, way beyond what the consumers have seen thus far. Just recognising that pressure, as well. That's why we held on to the PMA.

What needs to happen, I think we need to see how customers react to this affordability crisis. We need to see how corporates react to the supply chain and inflationary pressures that they have. Unemployment is very low, but there's definitely a labour shortage out there as well, that's the flipside of it, so there's real pressure out there. So, we'll want to see how that pressure starts to be absorbed through the rest of the year.

I don't see a single event, Omar. I think I would expect us to either use it over time or release it over time, depending on which way the economy goes. That's why we've got it. I would say let's just look at how the customers and the corporates perform, I'd say through Q222 to the rest of the year, and we'll see how it goes. Clearly if unemployment started to build, which it doesn't show signs of doing yet, but noting the Bank of England forecast, you'd expect us to be cautious in the short term. But we're very comfortable with the level of coverage that we've got, whether that's the coverage you can see on the balance sheet or the coverage that you don't quite see, in terms of SRT [significant risk transfers] in corporate. We're comfortable where we are and very watchful of those early signs.

Ben Toms, RBC

There's been a bit of press coverage in the last 24 hours on SPACs, a number of banks made quite a lot of money in the last couple of years on that revenue stream. Some banks now running for the hills a little bit on this product, can you give us an idea about what Barclays' current thoughts are and how much of a revenue headwind that is if it turns to zero?

Anna Cross

SPACs was a big deal in Q121 and if you look at our Markets and Banking evolution, we probably have a slightly less challenging comparative in Q122 than many of our competitors and one of the major impacts on that was SPACs. It's not been as big for us as it has been for some of the larger US peers. Therefore, you would expect it to have a lower revenue impact if that market does indeed stay where it currently is. From our perspective it's clearly significant, but

not significant in the market overall. That's one of the reasons why in Q121, our results were a bit lower than our peers, because they were really benefiting from that boom in the US.

Ben Toms, RBC

What are the chances [of there being any litigation and conduct charges from them]?

Anna Cross

I wouldn't comment on litigation here, I'm not aware of anything, but we'll wait and see.

Joe Dickerson, Jefferies

Just a couple of quick things, a little bit more high level. Just on the 10% sustainable RoTE, how confident are you of being able to deliver that in the coming years and how do you think about the moving parts? Then, you've got a good quarter under your belt in your current role. What are the areas so far that you're looking to change in your current role?

Anna Cross

10% RoTE, you're right, it's a good quarter and, hopefully, it gives us and others confidence in that delivery. Looking forward, there are a few moving parts I would call out. The continued broad-based revenue momentum that we have. We're seeing the balance sheet grow, we're seeing transactional activity pick up. And that manifests itself in payments, it manifests itself in our transaction banking business in the CIB. We are also seeing, I would say, pleasing progress in the CIB in terms of its diversification capability.

And a little bit of research you might be interested in. Go and look at how we make money in the CIB, relative to our American peers, and you will see over time, the business model starts to look a bit more like them in terms of the [business] split, so the split between Banking, Equities and FICC. That's simply because of the investments that we've made in that business across people and IT, and remaining committed to our clients. Trying to create a bank in the CIB that is more resilient to a different range of macroeconomic environments, and we saw that come out in Q122. Then, obviously there's a rate tailwind.

Then going, I would say in terms of pressure, in the opposite direction, we obviously have the uncertain macroeconomic environment that we have now. There is the question of credit risk. We feel like we are well covered, we've got a good balance sheet position. So, if you look at our unsecured ratios or even if you look at the totality, we've got £6.0bn on the balance sheet, £3.5bn of which is against non-defaulted stock, so well prepared in terms of impairment. I think the risk on that would be to the economic recovery outlook and, particularly, that plays into how the transaction levels or unsecured lending pick up. I think that's a nearer term risk that we might see from that.

I think also, inflation, obviously from a cost perspective. As we said before, we will work very hard to contain inflation by balancing what we're doing on efficiency and on investments. We might postpone some things, if we decide that's the right thing to do, at the margins, but you'd also expect us to continue to invest to drive growth, as we have been.

Putting all of that together, that's why we've got confidence. Because we feel that we've got that broad-based revenue momentum, we're well placed in terms of impairment and then we're very focused on that cost and efficiency. So, that gives us confidence.

Clearly, the things that will add additional fire to that, will be something like unsecured growth. We're seeing some strong signs in the US, still to see it in the UK, that would help us. Again, further interest rate rises would help us, but it doesn't feel like we're specifically relying on those things.

Joe Dickerson, Jefferies

And in terms of the change in guidance, I guess, just going back onto costs, what are the top two or three areas of discretionary levers that you have or you could pull back? And then just the second part of the question, as well, are there any things that you see that you would change?

Anna Cross

Obviously one of the biggest levers that we have is performance costs. We pay performance costs for returns, so to the extent that returns are not there, then you might expect the performance costs to be a little lower. The other thing I would call out is, and maybe this starts as a segue into the second question that you have. We're going to focus our investments very much around the priorities that Venkat set out. To the extent that we felt like we were investing outside of those priorities, we might slow those down.

One of the things that I would say we've got levers around is being very clear on what the priorities for the business are. It's a broad-based revenue platform, as I've said, but we're very focused on those three strategic priorities of Venkat. Whether that be next generation consumer, whether that be the CIB or whether that be how we feel about the transition to a low carbon economy. You should expect us to coalesce our investments around those. That's probably the area where you will see more focus from me.

Tushar and I worked for a long time together, so it's not going to be a massive revolution, so please don't expect that. But I would say that we do feel now, as a bank, the time is right for us to spend more time focused on those forward investments, so you should expect that flavour in the way that we talk.

Guy Stebbings, Exane BNP Paribas

First question is on UK cards. On the call, you talked about it being more of a demand issue. But industry data was very strong in February and March for the growth and stock of cards. I'm just wondering, is it a question of it takes time? Having come from a conservative risk appetite last year, maybe we underestimated you can't simply turn the taps on straight away when the demand comes back. Or actually, is it still risk appetite playing a role? And, if we are moving into a more gloomy economic environment, you would continue to be maybe more cautious than some peers and maybe that doesn't actually grow into Q222, as we previously anticipated?

Then, just a quick follow up on costs. Appreciate in terms of US dollar costs you don't want to give us a number in terms of percentage because it will move around. But typically, would the cost-to-income ratio in US dollars be below or above the group cost-to-income ratio? I presume fractionally above, though I'm sure it swings around.

Anna Cross

On UK cards, the reason I said that it's a demand issue is because repayment rates are very high and they remain high. Actually, they remain high in the US and in the UK. Purchase levels are very strong, but repayment rates are very high. You can apply the question of demand both to existing customers and to new ones. So if we apply it to those existing customers to begin with, I would say, that probably is a timing thing. As customers continue to increase their purchase levels and, particularly, if you noticed our payments data today, you'll note that spending on travel, etc. has started to pick up. That's the kind of thing that would tend to sit [on a credit] card. I would say let's just wait and see what happens, but the initial signs are good, which is purchase levels.

The second piece, though, which is around incoming cards, so new flow of cards. I think we were perhaps slower to turn on our risk appetite. We definitely took a very firm risk stance during COVID-19. Given the environment that we're in, that didn't feel like to have been the wrong thing to do. We were definitely firm and early in that risk stance. We are now risk on. One other difference I would call out though is I would say not just risk appetite, but returns appetite. We are probably a bit more conservative if you look at the tables, where our Balance Transfers were a bit further down than some of our competitors.

We're doing that deliberately. That's a market that we want to be in but we're relatively cautious around. It's probably as much about returns as it is risk. The other thing that I would say is that we're very focused on balancing our cards portfolio for a sustainable future. What I mean by that is, partly that point about Balance Transfers, it's also the point around, we want to build a cards franchise which is as much focused on spend as lend. We're putting a lot of energy onto the other side of the book, [for example our] new Avios product. The cards business that we're going to try and build is not the one that we had previously. Hopefully that makes sense.

On cost-income ratio, that's a good question and I'm not sure I can answer it, to be honest. So you typically expect a cards business to have a lower cost-income ratio, so you should expect US cards to have a lower cost-income ratio. That's typically what we see. You can see that in Barclaycard UK, for example, or you certainly could, historically. It's a bit more under pressure now, but typically, you would expect an unsecured book to have that.

On the other side, you're going to see the Investment Bank, which is typically higher. So it'll be a blend of the two. I couldn't call it. But the two will be quite different.

Chris Cant, Autonomous

If I could ask another related question on FX. I think management have in the past given us a percentage of the bottom line, which is in dollars, on a couple of occasions. Could you give us an update on that? And then on PMAs and the broader ECL piece, obviously PMAs are a huge part of your ECL balance at the minute. I guess that's a feature rather than a bug of the ECL models at this stage. But how should we think about excess expected loss deductions for Barclays? I struggled to actually piece together your regulatory EL from the Pillar 3. How close is the regulatory EL to your current total amount of ECL? So how much of that PMA could you actually release before you get an excess expected loss deduction again?

Anna Cross

So FX bottom line in dollars, I don't have those numbers to hand. But if we've done it before, then perhaps we can consider giving out for Q222. I'll talk to my IR colleagues about that. You'll appreciate that in the current environment it will be quite different to what it has been historically, so I wouldn't want to give you a historic number.

Chris Cant, Autonomous

I think it was previously about 40% in 2019. And I think it was, either late 2020 or early 2021, close to 50%.

Anna Cross

Yes, it could be different now, so let's come back to you on that.

On PMAs and excess EL, at the moment, it's not a big feature of the calculation that we do. In the past, we've seen that being considerable, but not at this point in time. It's difficult to call it out because of that uncertainty around the impairment pathway going forward, or the regulatory impact of that going forward. So it's really difficult to answer that question, sorry.

What I would say about the PMAs though is we feel like we are very well covered in UK cards in particular, and US cards. So I think there would be some distance in cards in particular before we got to that position. And just reminding you that as regards to wholesale, we also have impairment coverage that you don't see as a balance sheet matter through the SRT programmes, which are fairly considerable. So they will also have an impact.

Chris Cant, Autonomous

I think that would show up in the regulatory EL though, wouldn't it? Wouldn't that also come through in your regulatory modelling of EL if you've got risk transfer transactions?

Anna Cross

Yes, we have. So that does impact the RWAs, yes.

Robin Down, HSBC

Just a couple of quick ones. First, I was wondering if you could give us more help with the GAP credit card book. I know it comes in, in June, potentially, so we've got a day one impairment impact. But I think you're suggesting the book is now smaller than it was. And maybe if you could give us any clue as to what the second half might look like for GAP. It's a slightly different book. I guess it's more probably prime, near prime than the airline book, which is more verging super prime. So if there's any clues you can give us on the second, that would be great. Because I imagine you're going to blitz it with marketing spend, etc. upfront.

And the second, just a quick question on the corporate book. I know you mentioned it earlier in response to the issue of inflation. The CDS hedge is still in place there, I'm guessing. Could you give us any idea as to the extent of what that covers, how large it actually is?

Anna Cross

So on GAP, we expect that to be around \$3.5bn. It's a little lower. I think previously we were talking about \$4.0bn. So that will come in on day one, as you say, or at the end of Q222. That will have a day one impairment impact, a day one capital impact. You're right, we would expect to grow it from there, but probably not as extreme in its impact as starting a book from scratch, because obviously you've got an interest earning book that arrives on day one.

I think you're right in your characterisation of it. It is a different risk profile to the ones that we already have, so less super prime, more mainstream lending. So we'd expect it to be higher margin, slightly higher risk profile. So a [bit of a] departure for us, but one that gives us opportunities for the broader US market.

So in terms of the cost base, I would say you've seen us build the cost base through Q122. You should expect to see a similar environment through Q222 because what we're doing now is we're building operational capacity and the kind of capacity that you would need to have to run that kind of book.

There are nine million customers, I think, so it's pretty sizable as an operational matter. So you'll see some upfront cost build and then probably flatten out a bit, but net positive to the second half of the year. So you'll see a revenue step in Q322 and Q422 in CC&P in relation to that.

On the CDS hedge, can you expand your question specifically, please?

Robin Down, HSBC

I'm just conscious it's there and obviously we're seeing credit spreads widening through Q222. So I'm just trying to gauge in my own head how much of a revenue impact that might have. In anticipation obviously of potential future credit losses.

Anna Cross

Specifically around a syndicate pipeline?

Robin Down, HSBC

I thought the hedge, when we sat here in the past with Tushar, covered quite a broad range of your UK corporate book. So any kind of additional colour?

Anna Cross

So there's two different things going on here. There's the SRT transactions that I talked about before, where we are trying to cover areas where we expect there to be more risk pressure for specific areas of the book that we've been concerned about. We've called them out in the past.

I wouldn't say that we are massively increasing that coverage, not significantly versus where we've been in the past. It's broadly spread, but then there are areas of concentration against specific sectors that you might expect. And we've morphed those sectors over time as the specific concerns around the macro economy have changed. So I wouldn't expect a massive change in the carry of that.

What you are seeing is specifically in corporate and the corporate lending line, and that is where the cost of the syndicate hedging is, I would say that is elevated. And that's elevated for two reasons. The first is around the fact that the pipeline is bigger. So for all of the reasons that we talked about before, we're running a long pipeline. You would expect us, particularly in the current environment, to take appropriate hedging action around that pipeline, which we did. And in the current environment, the cost of putting those hedges down is higher than it previously has been. So I think that's probably more of the impact that you're seeing on that corporate lending line and why you've seen it step back.

Ed Firth, KBW

I guess we're all really struggling to find reasons to justify where all share prices are, but I guess yours as much as anybody. And I guess two areas that have struck me recently. One was, I saw on the train this morning, there was a hedge fund that's lost £17bn in the first quarter. I think it's down about 40%. So I just wondered, could you talk to us

about how that may impact your business, what sort of exposure do you have to those sort of counterparties, how we might see that flow through?

And then the other area is obviously property. I recently went to a presentation where they were saying they thought the market was in denial about the outlook for office property and that it felt very similar to what the retail sector might have done perhaps five years ago. So I wondered again, what's your attitude there? What's your exposures?

And I'm thinking particularly about green lending. I know there seems to be an enormous appetite for green lending and I understand that a stack of that is going effectively into office property. I don't think it's always classed as that, but bringing it up to green level. So again, what's your exposure there, what's your appetite for green lending to improve office property, etc.?

Anna Cross

So in terms of the share price, I'm not going to comment specifically. In terms of hedge funds, clearly we run a very broad market business. The prime business, in particular, is growing. I guess our exposure we manage through a number of factors.

So we are managing both our client onboarding, so very clear client onboarding, and due diligence. Secondly, the kind of stress activity that we do, so modelling stress losses for particular individual clients is a key part of how we manage that book. And I think the third thing would be the way we margin and dynamically margin it.

And certainly, as we've looked at where these things haven't gone well in the past across the industry, in part, that's because of how we see terms and conditions have been laid down. So we're very disciplined around those. So I won't comment specifically on individual hedge funds or our exposure, but just to reassure that we manage it carefully through those three levers.

Ed Firth, KBW

It must be an area, I imagine, that you're looking at quite closely. So when you compare with other times of volatility that we've had like this in the market, what are you seeing in terms of your counterparties? Are you hitting risk limits? Are we at levels of extreme or is the book looking actually much better than one might imagine from an external observation?

Anna Cross

Yes. Again, I won't comment on where we are relative to our risk limits to the outside world. But we talked about the fact that we went into Q122 with a cautious stance. I think we've maintained that. That certainly benefited us through Q122. So you might expect us to be in a similar position now.

Let me move to office property. Originally, I was thinking you were asking about our own property. And obviously we bit into that last year when we took a charge in relation to [5 North Colonnade]. And I'm sure as you come here in the future, you'll see us all nicely nestled in here, [One Churchill Place], together.

So I would say real estate, commercial real estate in particular, is not a large exposure to us. I can't remember whether we call it out somewhere in the annual report. If we do, then I'll find it and let you know. But it's not a big business for us.

Green lending office property. I think you're right. I think there is definitely an opportunity there. There's also an opportunity, I would say, as a residential matter in terms of not only thinking about how properties can be more sustainable for the future, but probably facing into more short-term energy cost concerns have probably brought that top of mind for many people.

So Venkat talked about that a lot. Our ability to help not just corporates transition but help individuals and businesses transition in terms of their carbon footprint is something that we are focused on.

Martin Leitgeb, Goldman Sachs

Could I just ask more broadly on Barclays' risk appetite? Heading into Brexit, after Brexit, risk appetite in the UK was more conservative. Some comments around last year about leaning more into the recovery, regaining some of the share. Given the current outlook for a slowdown in economic activity, is that risk appetite still there to increase, or are

you a bit more cautious now? And a similar question regarding US consumer exposure, how you're thinking about the current environment.

And secondly, just in terms of your balance sheet, if we're heading into economic slowdown, which part of your balance sheet are you most cautious about? Which part of your balance sheet are you monitoring the closest?

Anna Cross

You're right. We reduced risk appetite in the UK post-Brexit. We started stepping back in and then COVID-19 hit. I would say that our risk appetite is there. I distinguish affordability concerns from credit concerns because they're not quite coming together yet, if that makes sense.

So in the current environment, unemployment is very low. The arrears performance of everything that we look at is low and stable, historically low and stable, and that's in the UK and the US. So there are no indicators in the way that customers or clients are performing that would cause us to step back from risk at this point in time.

Having said that, you would expect us to be reflecting our current expectations around inflation and affordability pressure as we assess customers. So in terms of whether that be national insurance contributions or the increased impact of energy costs, we've flowed those into our affordability calculations for new customers. And we're very watchful and lending responsibly, but we have not cut our risk appetite at this point in time, and we would do so if we start to see a change in behaviour.

In terms of the balance sheet, I think I would say we're looking a bit further back in the activity change in that. So if you look at purchasing behaviour or if you look at payment behaviour, so identifying customers who perhaps have a higher proportion of their spending which is focused on essential spend, for example, we can see that their spending on energy cost has gone up significantly, fuel in particular. So we're very watchful about those sort of spending levels.

The areas of balance sheet that we're more focused on, and I would say focused, not concerned, would be the areas that you would expect and the areas where we've probably got biggest coverage or most substantial coverage.

So unsecured lending on both sides of the Atlantic, SME, corporate, and sector level, so specific areas. And obviously corporate is done on single names anyway, so that tends to be more idiosyncratic. So I would say watchful, not concerned, not curtailing risk appetite but being very responsible in the way we're assessing affordability as we go.

Raul Sinha, JP Morgan

The partner finance portfolio on which you took a provision charge, can I ask what the size of that book is, just given that looking at the notes, it's not clear how big the book might have been in the past?

And then just zeroing in onto the discussion we've been having about the UK rates pass-through, how much of the mortgage book is likely to reprice this year as rates go up, in terms of just thinking about the asset beta? I'm just wondering if you are able to pass through rate hikes on to new business as well as the refinancings? What proportion should we think about the overall book churning this year?

And then related to that, just trying to understand how much insight the industry has in terms of the pressures on the UK consumer. I think there are some stats that there's about £6.0bn of buy now pay later lending outstanding in the industry and they're only now going to start updating credit bureaus for who has actually borrowed there. So I was just trying to understand, conceptually, how do the banks think about the risk that your customers might have actually a lot of borrowing outside which is not exactly visible to you.

Anna Cross

So partner finance, it's a book within a book. So we wouldn't disclose a particular book of that scale. What I would say is, firstly, the particular circumstances around that intermediary are quite unique. And secondly, just to reassure you, that's not the kind of broker distributed lending we do through BPF, [Barclays Partner Finance], now. So we're very focused on that particular section of it.

In relation to mortgages, yes, you're right, people are re-mortgaging very quickly. You'd expect them to. We would want them to, to secure their spending in the current environment. It's difficult to tell, actually, because you see a change in behaviour at the same time so it's not just who is coming up for renewal. And that will vary bank by bank.

Typically, you would say, well, you'll definitely have everything that was written on a two-year in 2020, that will definitely come up. There will also be some five-year business in it. But the majority of the mortgage business has been two-year for some time. So I think if you looked back, you would probably find some helpful stats on that. But customers will be incentivised to re-mortgage really quickly.

And I think that also speaks to your margin question because it's not just compression on the front book that you see happening, because swap rates are going up. Front book rates take a while to catch up with those, so you're seeing a staggered roll upwards. But you also see a compression on the back book because of this sort of negative churn impact. So I would expect that to continue throughout the year, that pressure.

But it is one and the same side of expanding liability margins. They are the same balance sheet. That dynamic is typically what we would see at this stage of the cycle. So to the extent that we're guiding upwards, positive to NIM, hopefully should reassure that we think that the net is to the upside.

In terms of how much insight on consumers, you're right, it's very difficult to tell on buy now payer later. Clearly, if they're your customers, your current account customers, then you can see. But it's not something that we can assess through bureaus. And that's one of the reasons why we're so focused on that individual customer behaviour. So very, very watchful of whether that be credit card behaviour or current account spending.

And just to remind you, when we do modelling on IFRS 9, we do it at account level. So we are looking at those customers in a lot of detail very regularly.

Ian Gordon, Investec

Firstly, can you just remind me what your US tax rate assumption is both in the immediate and medium term, to underpin your RoTE target? And then, secondly, a bit of a parochial question, but we've never had an overall majority held by the Aspire Party on your local council before. You even have two Aspire councillors in your local ward of Canary Wharf for the first time. Does that enter your consciousness or require any response from you?

Anna Cross

On US tax, clearly, in terms of our longer-term planning, we have increased tax rates. But in the short term, we have not really because we've got no clarity. So in terms of our current RoTE outlook, you should assume more of the same.

In terms of local councillors, that has not yet hit my radar, if I'm honest. Perhaps that's something I can think about and come back to you.

Thank you very much, everybody. Really appreciate your time. No doubt we will see you soon.

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