Barclays PLC Q4 2021 Results

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

Omar Keenan, Credit Suisse

Good morning. Thanks very much for the presentation and for taking the questions, and I also wanted to extend my thanks to Tushar for all the guidance and wish you the best of luck for the future.

I've got two questions, please. Firstly, on Barclays UK NIM, some of the key sensitivities for the 260-270bps are around the deposit beta assumptions and mortgage margins. You said you're assuming a base rate of 1%, and the market is expecting something higher than that. Could you help us think about what assumptions you have on deposit pass through for these rate hikes and how it compares to the sensitivity figures that you've given us? And, I appreciate your comments, but mortgage pricing has firmed in the past couple of weeks. Could you also help us think about what sort of churn [margin] assumptions you're making in the 260-270bps? So, just a bit of colour around what the key assumptions are behind that.

My second question is on the return on tangible equity target. Thank you very much for the "ladder". I guess the piece that might be missing is, as you said, the further normalisation of loan losses from here and thinking around when the cost: income ratio target of 60% might be met. Obviously, it's very revenue-dependent, but could you help us think a little bit more about the path towards the 60% cost: income ratio? Thank you.

Tushar Morzaria, Group Finance Director

Yes, thanks, Omar, and I appreciate your comments. I'll look forward to seeing some of you next week anyway. Why don't I take both of those questions, and Venkat may want to add some comments as I go along.

On BUK NIM, I think your questions were, how do we think about deposit beta and mortgage churn. So, on deposit betas, you've seen how we've repriced our deposits for the first two rate rises that we have seen, and obviously there's been a relatively muted repricing.

We've given out sensitivity for a further 50bps of increase in base rates. Our sense is that it would still be relatively low levels of deposit beta. In other words, we'd capture a lot of that rate rise. I won't throw out specific numbers, but I would say that as you get higher rates, the chances are that you probably start capturing less and less proportionately of subsequent rate rises that come through. It's hard to be very precise on this because we haven't really got any empirical data on anything like this historically, where we've started from such a low base and with rates rising relatively quickly, and on top of which, obviously, the UK banking system has an awful lot of cash on deposit. But I think for the next two base rate rises, we should be able to capture a reasonable amount of the pass-through, but we'll see.

On mortgage churn, the way I think about it, just so we get our definitions right, is on the flow. In other words, every product that comes for refinancing that's on our back books, let's say a two-year fixed rate product that comes for refinancing, what rate are we refinancing that into? I do think at current pricing levels, that probably will go negative for now. It's really hard to be that precise further out because you've seen how frequently the large lenders have been repricing their mortgage rates and obviously with movements in the swap curves, it's been quite active.

So although I'd say near term pressure is from negative churn margin on the flow, on cannibalising front book production if you like, beyond that, it's a little bit hard to tell. But by and large, I think what we're really saying is that we're reasonably optimistic given the current assumptions that we have around rate rises, and what that will do to our income trends, and hopefully you see that in our NIM guidance.

In terms of return on tangible equity, normalisation of loan losses, just to remind folks briefly, and I'm sure you got this from our scripted comments, that although we're not giving out a loan loss rate, it's sufficient to say that we would expect impairment charges to be quite a bit below pre-pandemic levels, really as a function of a very benign credit environment. You can see that in our delinquency data, and the macroeconomic environment, as well as the lower unsecured balances than we had pre-pandemic. On Cost: income ratio, Omar, you're right, it's as much a function of revenues as it is of costs. We've talked about costs being in line with where current consensus is for 2022 and we're quite optimistic on consumer income. CIB income, it is a little bit harder to be precise in the forecast, but again, we think we're well positioned, generally speaking, as that business develops.

I'd also say that for us, 10% [RoTE] is our guiding North Star. We reached a 10% return on a statutory basis this year, and our objective is to try and do that every year. And I think as we do that in subsequent years, you'll see the cost: income ratio just naturally glides down towards that 60% or better. But thanks for your questions, Omar.

Edward Firth, KBW

Morning everybody, I just have two questions please. The first one was around CIB revenue outlook and I seem to remember there was a lot of speculation in the press in January that you'd taken a big one-off hit on a particular [Q4] transaction. I'm not particularly worried about the details of the transaction but I wonder, can you give us some sort of idea of the quantum of that in terms of the Q4 numbers?

And I guess more importantly, looking forward, other than that, is there anything particular about your business this year which would mean that, going forward, you would perform any different than what we're seeing from the market as a whole? All the US banks are giving us, recently, their guidance in terms of how the market is operating for Q1 so I guess that would be my first question. Did you want the second question at the same time, or do you want to answer that one first?

Tushar Morzaria, Group Finance Director

Yes, do you want to give us both of them, Ed? And we'll try and do them both together.

Edward Firth, KBW

Yes, sure. The second question was about credit quality. I hear what you say about credit, but if I look at your Stage 3 balances, in Q4 versus Q3, they were up quite markedly in BUK and up quite markedly in International, which surprised me if I'm reading those correctly. And I guess the question there is, it's very easy as a bank analyst, each time we hear about another 25bps of interest rate rises, to shove in another £200-300m of revenue. But I guess the reason for these rate rises is ultimately to slow the economy. And I wondered what sort of work you've done internally about at what level do you start to feel that rates would be a headwind as you'll start to see credit issues coming through in your book, if that's okay. Thanks.

Tushar Morzaria, Group Finance Director

Thanks, Ed. What I'm going to ask is maybe for Venkat to talk a bit about the CIB revenue and the item that you referred to. And maybe I'll come back to credit quality and Venkat may want to add some comments there as well.

C. S. Venkatakrishnan, Group Chief Executive

Sure. Thanks, Ed. I think our CIB, both in our markets and banking businesses, has been making strong and steady progress over the last few years. We have a sixth-ranked markets business. We've got a sixth-ranked banking business. The markets business has gone from eighth to sixth approximately in three years. That's the markets business. Banking has also improved to sixth over the last year and this is with a steadily increasing market share.

Now, in that context, you will see some strong quarters and some quarters which are slightly weaker. What I would say, on that specific item, is that part of the strength of our business is now the greater coordination in large transactions which we do between banking and markets. The vast majority of these transactions are very profitable to us and very helpful to the client in managing their risk and getting the return profile that they want.

Occasionally, one of these things does not work out quite as planned. We don't like it when that happens, but we learn from it and we move on. I wouldn't read anything particular into this. And I have great confidence in the continuing trend of strong performance in the CIB, both in banking and markets, and accretion of market share.

Tushar Morzaria, Group Finance Director

Thanks, Venkat. On your second question Ed, in terms of at what point do we start getting concerned about credit quality as rates rise, I'll make a few points there. At the outset, before we make any lending decisions on the consumer side (and obviously we do this in much more detail on the corporate side on a name-by-name basis), we do stress for affordability at the very outset. And to give you a sense, for mortgages we would stress customers to 6% mortgage rates before we feel it's prudent to be extending the mortgage. So that gives you a sense of how we think about where that should go.

The other thing I would say regarding the consumer book, obviously it is dominated at the moment by our mortgage business which is predominantly fixed. That's just the nature of the UK market. So there is obviously rate sensitivity for customers from there, but it's at the point of refinancing rather than instantaneous transmission.

The final two things I'd say, Ed, is that we are seeing relatively low levels of indebtedness generally. So we aren't seeing customers, at this stage, exhibiting real stress in any sort of meaningful way. One thing I would say though is, when you're looking at what point could this be more of an issue, I think it will be unemployment which is probably the best lead indicator. So as unemployment starts trending up, particularly above perhaps what most people would expect to be a regular level of residual unemployment, at that point you'll see credit quality change, and that's the best lead indicator. At the moment, we feel some way away from that. Unemployment is at extremely low levels, both in the US and in the UK, so we're not concerned at the moment but that's probably one area we will watch closely.

C. S. Venkatakrishnan, Group Chief Executive

Yes, and I'll add to that. I think we're at the stage in the economic cycle, and the credit cycle particularly, where build-up balances is more beneficial to us from an income point of view than hurtful to us from a credit point of view. So I see that marginal trade-off of balance build as being beneficial to us.

Edward Firth, KBW

And, sorry just in terms of the Stage 3 balances, is that just something to do with how you add them up at the year-end or something, or why would that be?

Tushar Morzaria, Group Finance Director

Yes. We could probably maybe have a discussion after this call, rather than go through it here. And I'm just looking at the quarter-on-quarter Stage 3 [moves], and they're slightly down, but you may be referencing a different table. So perhaps we can give you a quick call after this one, Ed, just to make sure we're synced up.

Jason Napier, UBS

Good morning, thank you for taking my questions. And congratulations to you, Tushar, as well as to Venkat and Anna. And just to echo what Omar was saying, thank you for the hard work and help over the years in trying to make sense of all things financial.

Two questions. The first please, perhaps for Venkat and for Tushar. The 10% RoTE target implies around 150/160bps of CET1 generation. When we're thinking about how the 10% RoTE and 150bps of capital accretion fit together, I wonder whether you might talk a little bit about what normal RWA growth or consumption the group might demand,

and for Venkat, whether you see any changes to the composition of the group in the coming years. So that'd be the first question.

And then secondly, I hear what you're saying about the customer acquisition costs in CC&P. That's something we're hearing from US players quite clearly. Some of the offers in the market are pretty attractive, but it is something you've warned on before. And so I just wondered whether you are signalling it, but consensus is not listening. At this stage, we're at £3.7bn for 2022, so up 13%. I would've thought, with balances growing 5% last quarter and the GAP portfolio coming on stream, that would've been a number that you could achieve. But perhaps you could be more clear about what it is you're saying about CC&P and those headwinds as we go through this year. Thank you

Tushar Morzaria, Group Finance Director

Yes, thanks, Jason, and thanks for your comments at the beginning of your question. Why don't I just cover them both briefly? Then I think Venkat will want to make a couple of comments as well.

On the RoTE, we just rounded it to c.150bps of capital generation, we weren't trying to be super precise. In terms of the gist of your question, about how much of that gets absorbed by growing our balance sheet or putting capital back into the businesses, I think what you'll see is, as the consumer businesses recover, we would very much like to grow consumer assets, both in mortgages and unsecured, obviously in US cards as well as in the UK. Those aren't particularly capital consumptive so I don't think you'll see much RWA inflation as a consequence of growing the consumer side of the balance sheet. That leaves the Investment Bank and we've just been more nimble there. You'd have seen that RWAs have gone up slightly over the course of the year. It's been a pretty decent environment, with super active capital markets as well as in sales and trading. So that may ebb and flow a bit, but I don't think you'll see material differences in the CIB, certainly to the upside. But Venkat may want to talk a bit more about how he sees business composition over the more medium term.

Just a quick word on customer acquisition costs in CC&P and I'll hand over to Venkat. Yes, you're right to point it out and I see this as a positive lead indicator. There's three stages to it. First of all, are people wanting your card? So in other words, are people opening new accounts with you? When we look in the US, account openings are going really well, and I think pretty much back to pre-pandemic levels, and sometimes better in some portfolios, so that's good. People want our card and they're going out and getting our card for the first time.

The second thing, are they using our card? When I look at spend data and gross purchase volume, they're very much in line with most of our US peers when I look at the industry averages. And again, that feels really good for us, because we are more of a partnership business, and we're competing with a lot of open-market brands, so to see our purchase volume very consistent with them is great news.

And the third thing is, at what point do balances grow and people then revolve? And you've seen balance growth now and I'm pretty confident that'll result in revolving balances growing as well, as we get into next year. So overall, I think we're pretty constructive on the US cards growth. And there is increase in customer acquisition costs, which by the way does hit all three line items of our P&L: you'll see some in contra revenue as we give rewards out when people first start using our cards; you see it in the marketing costs in our expense line; and obviously you'll see impairment build as balances and new lines are allocated. So you'll see it scattered throughout P&L. But that, to me, is a very positive lead indicator, and that all feels in the right place. But Venkat, anything you want to add?

C. S. Venkatakrishnan, Group Chief Executive

Yes, I obviously endorse what Tushar has said. I think on overall business mix, as Tushar has indicated, we would like to see more balance growth and the modest capital consumption that goes with that from the consumer side, especially in cards. On cards in particular, we like the onboarding of accounts with GAP and AARP. They diversify the portfolio, which has been a travel heavy portfolio, and so it brings in more retail and a different spending mix.

And then on the Investment Banking side, we continue to have, what we call sustainable organic growth. And I think, in many ways, on the markets side where capital flow is nimble, it's a function of where the trading volumes are which we are pretty constructive on, as this quarter has begun and we would tend to see growth continued in equities and securitised products and, of course, in macro, where there's been an active amount of volatility.

The biggest area over the last couple of years that has grown, which has been rewarding to us, has been Equity Prime, where that business has increased balances tremendously. There's [relatively] little capital that goes with it because they are very well structured balances, but that's been a major area of increase. The bottom line is that we believe we have the capacity to absorb what we think is the expected growth in our trading businesses and banking businesses overall.

Jonathan Pierce, Numis

Hello. Good morning, folks. A couple of questions. The first one is a numbers question around Equity Tier 1 in the first quarter. And I was particularly looking for some guidance on whether there's going to be an impact with the big move in the swap rates that we've seen so far this year. Your reporting account shows there's about a £500m pre-tax hit on the FVOCI for every 25bps [upward] move. And I guess that scales up to about £1bn pre-tax, based on what we've seen so far this year. But you don't split it between pensions, which obviously don't hit capital, and other things which do, so if you can give us a bit of help, please, on any Q1 headwind that's coming from that, that would be really helpful.

The second question is much broader, and it's on the distribution profile of dividends versus buybacks. Is it your intention to just move the ordinary dividend up over the next few years to 40-50% of EPS? Or are you going to be a bit more dynamic than that, and if the shares continue to trade at 0.65x book, and I note your LTIP pays out in full only if the RoTE hits 12% next year, so clearly if you think the shares are pretty cheap, will there be a big bias towards buybacks versus ordinary dividends in the nearer term? Thanks very much.

Tushar Morzaria, Group Finance Director

Yes, thanks, Jonathan. Why don't I take both of them? On your question about CET1 headwinds from AFS/FVOCI, of course, there are some headwinds there. There's so many things that go into the CET1 ratio, with business activity, tailwinds, headwinds, etc., so the best thing I would say is, a typical profile for us would be we are net users of capital In the first quarter. It tends to be a very active quarter for us, obviously in our Investment Bank, a lot of deal activity, a lot of sales and trading opportunities. And then we tend to accrete capital over the remaining three quarters.

So rather than getting into the wherewithal of the individual components of the ratio, because although a move back up in rates may be detrimental to AFS, it may be better for income, it may be better actually for fixed income financing spreads in the IB, and there's all sorts of things that change. But generally, to be net users of a small amount of capital in Q1 and then generate capital from that point on, is a typical year for us.

On the distribution profile, we've guided to a progressive dividend policy, so I think it's fair to say that the assumption is, all things being equal, you would expect that dividend to grow at a reasonably healthy rate from where we are today. You rightly point out that given the share price where it is today, buybacks look incredibly attractive. We absolutely do feel, as we've said a number of times, we believe we're a 10% double-digit earning bank, and that's our objective to try and do that every year. That isn't reflected, we believe, in our share price. The buybacks look incredibly attractive at these levels, but the dividend is a progressive dividend. I'm not sure the board would look to "reset" the level of dividend until perhaps the shares are at a different price I think, but hopefully that answers your question, Jonathan.

Joseph Dickerson, Jefferies

Hi, thank you for taking my questions. Just a couple of longer-run type of questions, probably more for Venkat at this stage. But I guess, when you look at the US CC&P business, how meaningful is the business extension into adjacent businesses, and the resulting revenue augmentation from that? So leveraging the GAP portfolio and whatever future store card deals you may do, how meaningful do you see that opportunity in the context of the group?

And then related to that, just coming back to the near term, costs were up 13% year on year in CC&P. How much of that is competitive landscape, and how much of that is more idiosyncratic to Barclays?

And again, linked back into those two points is, Venkat, as somebody who used to wear the risk hat, do you feel that the group has taken enough risk in some of the areas in unsecured finance?

Tushar Morzaria, Group Finance Director

So why don't I ask Venkat to add some comments on the longer term, particularly the mix of card portfolios in the US business and then the risk profile as well? Let me just make some introductory comments first though, Joe. I'd say moving into, or diversifying away from, hospitality and travel is a very big deal for us. And the GAP portfolio does two very important things for us. One, it takes us into a completely different space in terms of the partnership product. If you look really broadly speaking, the overall industry wallet for partnership programmes, about half is in travel and hospitality, and leisure and the other half is in retail. We don't have anything in traditional retail so Gap is a big deal for us. In terms of customers, to put that into context, GAP will be approximately 11-odd million customers, kind of like the number of customers we have in the United Kingdom, and we are a very significant player. So adding 11 million customers in one shot is a very big deal for us.

The other thing it does actually is it takes us into a brand new product as well as a brand new segment of the market, and that's into store cards. Store cards in the US are around about 40% of the market so that's an area that we don't do anything in at the moment. So, this is a big deal for us, and we're very excited about being able to do this, we hope, at the beginning of a change in the credit cycle. So after the pandemic and now we're into a recovery cycle, we'll hopefully have a decent consumer recovery cycle and that's the right time to be really pushing investment in this. I think in terms of the risk profile, I should probably not make any comments on that. I should let our ex-Chief Risk Officer and now Chief Executive Officer comment on both of them. So over to you, Venkat.

C. S. Venkatakrishnan, Group Chief Executive

Yes, so thanks, Joe. I think I echo what Tushar has said. On the question you had about adjacencies, there are clearly some technological adjacencies that has happened with the card portfolio. I think the more meaningful adjacencies that we have capitalised on so far are actually the Investment Banking adjacencies.

Our cards business is a corporate-oriented business. While we have millions and millions of customers, actually, we're dealing with a few dozen corporate partners and the card relationship is a way we had to cement a much broader Investment Banking relationship, which has particularly been lucrative for us and helpful to our clients, so that's a very important adjacency.

More broadly, do we take enough risk? I would [rather ask], do we take the right type of risk and I think the one type of risk we do not take, particularly, is our own branded card. That's important because we don't have a broad US retail presence, and we don't know the customers as well.

When we take the portfolio risk in our corporate card programme, we are working with a lot of data and a lot of familiarity. As Tushar has said, diversifying away from travel into both private or white label cards as well as the retail segment is actually, we think, risk improving for us.

Alvaro Serrano, Morgan Stanley

Hi, good morning. I have a couple of follow-up questions really, first of all, on your NIM guidance in the UK. You point out that the business mix is still a headwind. I was wondering, on the volume growth there, what kind of recovery, if you can be a bit more specific maybe, you're assuming on credit cards. You obviously said you expect some growth but it sounds like it's not going to be a big rebound. How do you think that still compares to mortgage balances?

I also had another follow-up on the CIB. The pipeline in ECM and M&A has dried up quite a lot and you alluded to that, particularly in technology. You've called out the volatility and prime brokerage balances, but I wonder if you think that is going to be enough to offset what looks like a pretty weak start in banking fees? I'm just thinking that consensus has got revenues down just a bit for this year, and whether that might prove a bit optimistic. I don't know if you can maybe share some thoughts on that. Thank you.

Tushar Morzaria, Group Finance Director

Yes, thanks, Alvaro. Why don't I cover them both? And Venkat may want to add a couple of comments as well. On net interest margin and business mix, we are constructive on credit card growth. We have been cautious up till now and I guess in this case, unfortunately, perhaps we were right, in that balances didn't grow as quickly as perhaps the optimists out there [thought], but we unfortunately were probably more right on this one.

However, we are quite optimistic into 2022 and the reason for that is we think that 2022 ought to be a year that is free from lockdowns and restraints on the economy. The big difference that will make for this year is that the kind of spend that we would expect to see will be more geared towards credit card spend activity.

Unfortunately, last year, for example, at least in the United Kingdom, there was much less holiday travel than we would typically expect, certainly less overseas holiday travel. That's usually a credit card category that's very important for us, and that was muted last year. We would like to think that this year, those more discretionary spend items would be unabated, and therefore, we should see good utilisation of our credit cards.

The next question is, how much of that then appears as revolving balances? So that's a little bit harder to gauge, but we are optimistic that we should see some improvement there. I wouldn't overstate it, but it's a high margin product, so you don't need to see too much for it to be very accretive to NIM and, indeed, net interest income.

The other thing is on the mortgage side. If anything, this year might suit our business mix a bit more than last year. Last year was characterised very much by a first-time buyers' market that was fuelling the mortgage market. For us, the re-mortgage business is an even bigger part of our business than first-time buyers and with rates rising, you tend to see more active re-mortgaging, people that are just basically financing themselves before the anticipated rate rises, and that actually suits our business well. Hence, we're constructive on both mortgage growth, just as the nature of the market perhaps is suiting us, and on credit cards, with the nature of the spend activity we expect to see in the UK being quite attractive to us.

In terms of CIB, the only thing I would say there, Alvaro, it's very hard to give precise guidance on income so I'll refrain from that, but we feel really good about the diversification within the CIB. You're right, there's been somewhat slower ECM and M&A activity, certainly in January, and that's, in some ways, not surprising. That's actually quite typical because you usually get a flurry of deal activity before the calendar year end, and then you go into company reporting season and blackout periods and stuff like that, so you don't typically see a lot of deal activity in the earlier part of the year.

That may change, obviously. You'll have to look at asset markets and geopolitical risk and whatever but away from that, if for example there is price volatility and asset price moves and geopolitical news flow, it typically suits sales and trading business well, and certainly a rising rate environment ought to suit the financing business very well. We're very pleased with the progress we've made in the Prime business, and one business we don't talk a lot about that is Fixed Income Financing, which is a large business for us.

So I'll refrain from giving precise income guidance, but we feel pretty good about the diversification, that we should do well, regardless of what's hot and what's less hot in any one particular quarter, but we should be able to see that through.

Alvaro Serrano, Morgan Stanley

Sorry, Tushar, on the retail side, you're optimistic on credit cards and mortgages, but you think the mix is still a drag? i.e. credit cards may be not growing as much as mortgages yet if I've read your guidance correctly.

Tushar Morzaria, Group Finance Director

Yes, Alvaro, it's obvious, and I know you know this, that on a nominal basis, mortgages will massively outgrow cards. Cards is much more of a higher margin product, so I wouldn't rule anything out. It really depends on the pace and strength of the recovery. We feel okay with it now, but we'll monitor it quarter by quarter.

Rohith Chandra-Rajan, Bank of America

Hi, good morning. I had a couple, please. The first one on the CIB. So the commitment to maintain that market position seems like a very clear statement of intent. As Tushar alluded to earlier, consensus expectations are for a smaller revenue pool this year, but also, competition looks like it's intensifying. Hence, I wondered if you could talk about how you balance near-term revenue prospects with the cost and capital resources that might be required to maintain that top six global IB ranking. That's the first one.

And then the second one, hopefully relatively quick, just on the structural costs for 2022. Should we think about that as similar to 2021, excluding the real estate charge that we had in 2021? To what degree should we think about these structural costs being ongoing?

Tushar Morzaria, Group Finance Director

Yes, thanks, Rohith. Why don't I quickly do the second one and I'll ask Venkat to talk about the CIB. Yes, I think that's a reasonable way of thinking about it. Just to repeat what you said, take the 2021 charges and strip out the large real estate charge that we took in the second [quarter] is probably a decent planning assumption.

Prospectively, from there, we have a lot of choice about this. At this stage I don't expect this to be a material item to be putting into our projections for 2023 and beyond, but I think what we've tried to do is keep you posted on plans as we go through the quarters.

One thing I would say is that where we see opportunities to accelerate progress and make a difference, and we've got the earnings capacity and the capital capacity to do that, we think it's probably in our shareholders' interest, so we are minded to do that, but we will keep you guys posted. But certainly for 2022, I think your planning assumption is a reasonable one. Venkat, do you want to talk about the CIB?

C. S. Venkatakrishnan, Group Chief Executive

Yes, Rohith, thanks for the question. I look at the CIB as a place where we've obviously been gaining market share and increasing our rankings. It comes from three things. It comes from investment in people and capabilities, an investment in technology, and a steady commitment to the business which basically helps clients decide what they want to do with you, do more with you and stay doing it with you.

All three have been in place, to an increasing level, over the last number of years, so I think we have the momentum behind us to continue to do that. We don't control the overall wallet, but to be meaningful to our clients, I think it requires, as I said, those types of investments. I'm fairly confident that with the investments we've made, and we can continue to make and will continue to make, that we will continue to get both mind share and market share.

Guy Stebbings, Exane BNP Paribas

Hi. Morning, Venkat. Morning, Tushar, and I echo comments on best of luck for the new role, Tushar. The first question was on NIM trajectory, and primarily BUK. And given the range of 260-270bps, it strikes me, from simple maths, that we should be exiting at the top of that range. If the curve holds, is there any reason why we shouldn't be thinking about a NIM north of 270bps as we enter 2023? Potentially, it's quite a bit more if we add the benefit of rate hikes implied from the markets. Within that too, if I look at your hedge, it looks like it should be about £200m [up] in 2022 from the current run rate, and then another even larger step-up in 2023. Is there anything that would just lead you to soften expectations versus those sort of comments?

The second question is on costs. Thanks for the guidance and comments about being happy with consensus costs of £14.3-14.4bn. I wonder if you could just unpick that a little bit more. Firstly, modest growth in the base costs. I would assume modest is about 2%, so that's fair. Taking your comments on structural cost actions down by £250m in the year, if I then had flat CIB costs year over year, you'd be looking at about £14.4bn, so the top end of that range. Is there anything I'm missing around that?

If I can just quickly add another one on costs, another year of a CIB cost-to-income ratio below 60%. Assuming revenues don't drop meaningfully in the CIB, is that something you think is achievable, going forward from here? Thanks.

Tushar Morzaria, Group Finance Director

Yes. So why don't I take them, Guy? On net interest margin UK, look, I think it's reasonable, what you said. Just the fact that if we're guiding to a range of 260-270bps, we'll obviously be expecting to exit 2022 at the upper end of that. Like you say, there's flow through from structural hedges and full-year effects of any rate rises we may get from this point on, so that will improve the NIM into next year. So yes, I think it's reasonable the way you're thinking about it.

Of course, I'll just bridge back to there being so many variables. The number of rate rises, the product mix, pricing and I know you will know all this, but that's why we give a range rather than trying to get too precise but I think you're thinking about it the right way.

On costs, I think it's reasonable, again, the building blocks that you used. I won't quote whether you use 2% or 3% or whatever in your precise models. I'll let you judge that but I think the building blocks that you're using are pretty reasonable. In terms of CIB and cost: income ratio, look, we're pretty pleased with the operating leverage that the CIB has been able to demonstrate so where we have a very buoyant top-line environment, a lot of that drops straight through to the bottom line.

We feel we're very competitive in terms of remuneration to the bankers that we have here. We've attracted really high quality folks to our platform and our retention rates have been very good as well so we think we've got that balance right. And absolutely, in a good revenue environment, our intention is to demonstrate strong operating leverage in the CIB as we've done in the past. I won't give, again, precise guidance on cost: income ratios, but operating leverage is always something that's important to us in our business.

Chris Cant, Autonomous

Good morning, Tushar and Venkat. Tushar, if I could just echo what others have said. All the best for your future role and thanks for helping us with all the questions over the years. Two for me, please, on the CIB. If I look at your performance costs, if I think back to 2019, your total increase in group performance costs, 2021 on 2019, is up £290m and if I think about CIB revenues over that time, they're up by £2.3bn, thereabouts. How should we be thinking about this into 2022? I appreciate you don't want to guide on revenues or you don't want to comment on current trading, but in recent quarters, you've indicated that if revenues do come down in 2022, you would pull down CIB costs to offset it. If I think about where performance has been historically, it hasn't moved up that much relative to the scale of the revenue improvement. What kind of cost-to-income ratio on a decline in revenues should we be thinking about there? It doesn't feel like there's a huge amount of wiggle room relative to historical levels of performance costs, if revenues do decline in the CIB. That would be the first question, please.

And secondly, instead of asking on the CIB, if I could rather ask about payments. You gave this guidance at the first-half stage that there was a £900m revenue upside opportunity from the recovery and growth in the various payments businesses relative to 2020 levels. Could you just give us a sense of how much of that opportunity is already captured in your Q4 run rate? You were flagging, in particular in CC&P, quite a lot of growth, year over year in payments there but if we think about Q4, how much of that £900m is already in the run rate and how much of it is still to come as upside into 2022 and 2023? Thank you.

Tushar Morzaria, Group Finance Director

Yes. Thanks, Chris, and thanks for your comments at the beginning of your question, much appreciated. Yes, performance costs and I guess your real question is, in a downside revenue environment, how much could we bring performance costs down? It's a tough one to answer. The one thing I'll say is on one level, we have to be responsive to the market that we're operating in. It's obviously too simplistic to just be mechanical about your performance costs because there are just so many factors that go into it.

You look at the competitive nature of the marketplace. Was our underperformance idiosyncratic? Was it part of the overall trends in industry? What did that result in overall pay levels? The mix of the business where some businesses have a higher pay-out ratio than other businesses, and vice versa, so it's hard to be precise.

But what I would say is hopefully you've seen us demonstrate, at least in an upward market, good discipline, but at the same time making sure that the franchise is in very good health and that you've got the right quality of people on the platform to benefit from that upside.

For us, I guess, in some ways, the guiding North Star I've always felt in this business is we need to make sure each of our divisions is earning at least 10% return on equity. That's an interesting inflection point for us, and we would do what we can to maintain that, but we've got to be responsible. If we need to pay to protect our franchise, we obviously will but hopefully you've seen us being disciplined and not just paying out for no reason.

In terms of payments and the £900m run rate, I think in our disclosures you should be able to pick this up. If not, I'll get someone to give you a buzz afterwards, just so you're picking it up from the right part of our disclosures. But payments is up about 17% year on year and you should be able to back into there. Maybe I'll get someone after the call just to point you in the right direction, as to how much of that £900m therefore that's consumer, and then you can back out the rest, if that's okay, Chris.

Chris Cant, Autonomous

Okay, sure, happy to take it offline. Thanks.

Tushar Morzaria, Group Finance Director

I think, just because we're getting close to the top of the hour, should we take one more question? Could we have one more question, please?

Martin Leitgeb, Goldman Sachs

Good morning. Let me echo earlier comments and congratulate Venkat and Anna on the new roles, and thank you, Tushar, for all your help over the years. Just one question, please. Looking at the progression of deposits in the UK system as a whole, compared to loans, and the market increase and excess liquidity now trapped in retail ring-fences in the UK, I was just wondering if you could highlight your thinking on this excess liquidity.

Do you think this is likely to stay? Or could we see a scenario where this is going to gradually decrease? The question here being, could this, in your view, lead to a phase where deposit betas are markedly lower compared to where they were in history? Or are there any other incentives for a bank like Barclays to potentially engage in higher deposit beta, maybe for current account market share purposes? Thank you.

Tushar Morzaria, Group Finance Director

Yes. I think the way I'd answer that, Martin, is that we've never really paid up for balances so we don't believe we've got much, if you like, hot money. If you look at our savings rates, you probably wouldn't be choosing Barclays as your deposit account if you were just looking for the best rate available. That's never really been a part of our business. They're much more franchise balances, as we call them, and they've grown quite nicely.

Having said that, at some point, these balances will become rate-sensitive. Our view is we haven't seen that yet. The last time base rates peaked, they were 75bps and we didn't see rate sensitivity then so it's probably reasonable to assume, for the next 25-50bps, that maybe there will be not much rate sensitivity. Beyond that, we don't have any empirical, historical data to calibrate them off.

What gives us a little bit of comfort is that we've never paid up for the balances in the first place, so it's not that people have been parking money with us in the expectation that they'll move it when they can get a better deal elsewhere. I hope that help but thanks for your question, Martin.

So why don't we wrap up the call? Before I close, thank you for many of your comments as part of your questions. I'd just like to say it's been an absolute privilege and a pleasure, being the CFO here since 2013. Although this will be the last call I do of this type, I hope to get to see many of you at the sell side breakfast next week and at the buy side meetings that we'll have over the next coming days.

I'll still be at Barclays for some time, so we may bump into each other in a different capacity, but a big thank you to everyone for all of your debate, challenge, counsel, and the odd word of encouragement I've had over the years. Whatever you said, it's been much appreciated, and I'm indebted to all of you.

I'd also like to say how thrilled I am that Anna has agreed to step into the role. Anna and I have known each other for several years and worked very closely. And hopefully, many of you have met her in the recent quarters as she's been a fantastic help to me.

She will be a fantastic steward for Barclays, and with both her and Venkat at the helm, and as someone who'll be owning shares in Barclays for the foreseeable future, I couldn't think of two better people to be taking care of my shareholding in the right way. But with that, why don't I hand over to Anna, who is actually with me here today, to close out on the call. Anna?

Anna Cross, Deputy Group Finance Director

Thanks, Tushar, and at the risk of repeating everyone, I think a huge thank you to you from all of us. It's certainly a tough act to follow, big shoes to fill, but I'm really looking forward to the opportunity. And I'm also looking forward to the opportunity of meeting many of you over the next few weeks at the breakfast and beyond with Tushar and with Venkat. So with that, thanks, everyone, and we'll close the call there.

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