

**Barclays PLC Q3 2022 Results****26 October 2022****Results call Q&A transcript (amended in places to improve accuracy and readability)****Alvaro Serrano, Morgan Stanley**

One question on costs, another on asset quality. On costs Anna, you've said you're not going to talk about 2023, and I don't expect you to give a hard number, but if I take your guidance for this year, it looks like operating expenses are annualising north of £16bn, considering there's likely inflation and consensus is closer to £15bn, so there's a significant delta. Are there any cost actions or anything I should bear in mind in that number, beyond obviously the exchange rate? Any actions you're able to take, or do you feel there's even more flexibility on variable compensation than in other times in the cycle?

And the second question is around asset quality. You said that you expect a trend towards through-the-cycle loss rates. Obviously, there's been some changes in the mix, increasing retail cards in the US and shrinking UK. I don't know if you can update us on what that number looks like now? And related to that, in your Downside 1 scenario, I think you've got a cumulative almost 20% correction in house prices. What impact would that have on RWAs?

**Anna Cross, Group Finance Director**

Let's take costs first. We guided, this year, to £16.7bn. That has an assumption embedded within it, that the fourth quarter dollar rate will be 1.12. As we look forward into next year, here's how I'm thinking about it. We would expect that, given we've seen elevated levels of L&C this year, for that to be considerably lower. However, the FX impact that we've seen intensifying through the year, you might expect annualises into next year.

So if rates stayed at 1.12, that would be about £500m of cost increase into next year. But what we have to remember is that that has a greater impact on the income line, so the equivalent to that £500m in income terms would be £1bn. So as you're updating your cost expectations, I would encourage you to think about the FX impact in income as well.

As relates to other factors, clearly there is inflation, but you've also got the investment that we've focused on, our three strategic priorities. You can see that not deployed equally throughout the bank. In terms of actions, we could clearly modify that investment plan, but to the extent that we feel that it's driving revenue growth, obviously we'd be thoughtful about doing that.

In terms of managing inflation, we do have efficiency programmes in place. You can see that, particularly in the UK, where you've got strong income growth dropping to the bottom line with minimal cost growth. So I would say consider the impact of efficiency programmes there. Obviously, also if we see a drop in CIB revenue, we've got another lever in compensation. But overall, I'll just leave you with a message that we're very focused on the ROTE target and very focused on delivering positive jaws.

In terms of asset quality, it's difficult to give you an adjusted version of that historic number. You're right, we're actively growing balances in US cards, we're seeing them fall away in UK cards, but, at the same time, you can see that the level of risk that we're holding in the balance sheet versus pre-pandemic is lower, and to some extent we're going to have to see how that pans out. It's lower because LTVs are lower. Actually, if you look at the staging, you can see that the proportion of stage one and two balances is also considerably higher than it was pre-pandemic.

And to your final point, we haven't seen pro-C (pro-cyclicality) in our RWAs yet. You're right, if there was a substantial decrease in HPI (House Price Index), we would expect that to impact the loss-given default in our capital models, and would lead to some RWA pressure. But equally, remember that within that there's the probability of default piece as

well, and therefore you should consider that strength of customer balance sheet, as we sit here today. So we'll update on that as we see it happen, but to date, no sign.

### **Joseph Dickerson, Jefferies**

You already answered my question on the FX sensitivity there on revenue versus costs, but on capital return, Venkat, I think you've spoken earlier this year about the conversion of earnings into buybacks and you did £500m at Q2. I guess, what held you back at Q3, given you've got clearly a reasonable capital buffer? Yes, there are some headwinds coming in Q4 from pensions and Kensington [Mortgages], but another £500m, I don't know, 14-15bps of capital, is this a management decision around being prudent or are there other regulatory considerations at play here?

### **C.S. Venkatakishnan, Group Chief Executive**

It's a decision which we will take in Q4. Basically, that's it. We did it at the year-end and the half-year this year, and so we will talk about that in our annual earnings.

### **Jonathan Pierce, Numis**

A couple of questions, one on the hedge and one on the fair value through other comprehensive income. The hedge, there's another £10bn added to the notional in Q3. I don't know whether FX has any influence on the size of that hedge, but clearly in the UK bank, deposits haven't grown now for three or four quarters, but the hedge is still building. I'm just wondering, are you now fully hedged?

Thinking about headwinds in the other direction moving forwards, are you seeing any early signs of the hedged balances, particularly the 0% current accounts, starting to shift into higher rate deposit accounts, either within Barclays or to other institutions?

The second question, the fair value movements through OCI (other comprehensive income), in particular with regard to the debt portfolio, they were fairly small, actually, in the third quarter versus what we saw in the first half, despite much bigger movement in interest rates. I've always been slightly confused as to what this portfolio is, and I guess the question is, given the extent of the rate moves we're now seeing, can I ask you to give us a bit more detail on why you have this seemingly unhedged debt pool? And can I infer, from the relatively limited impact in Q3, that you've reduced the sensitivity to rate movements fairly significantly over the course of the last quarter or two?

### **Anna Cross**

On the hedge, the movement, quarter on quarter, is not a sterling movement. It actually relates to euro rates, central bank rates have gone from negative to positive. It's a change in eligibility. So it doesn't impact the UK sterling part of the hedge at all. So you're right, UK liabilities are broadly stable. We are seeing some take-up of savings products but actually in a positive way, completely in line with our expectations. We've got some good savings rates out there, and so we're seeing customers migrate to those, as we expected them to. And all of that within our hedge assumptions, and the way that we created a buffer in that hedge.

As relates to your fair value through OCI question, I can see why you might have expected a larger impact. If you look at the disclosure in the annual report, that gives an amount for a 25bps shock, and I guess your question relates to the fact that the gilt curves moved by more than that. What's going on here is, firstly, the disclosure in the annual report actually includes not only the liquidity buffer but shows the impact on the pension fund assets, because the pensions [are] in surplus, those movements are obviously neutral to capital, so you're not seeing that go through.

In relation to the liquidity buffer itself, a couple of things. Firstly, the portfolio is diversified, it's not just gilts, so there's a range of products in there. And secondly, we have taken down that risk, we've reduced outright risk as the year has progressed, and it's that really that's giving the smaller result in the third quarter.

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

Congratulations on a record FICC performance in the quarter. Just on that, you discussed, Anna, in your comments, [that] volatility's particularly heightened at the moment, and you'd expect trading revenues, overall, to decline over time, so in terms of helping us to think about the offsets to that, you mentioned FICC financing. I don't know if you can help us with what sort of proportion of FICC revenues that is, and how that's grown, year on year or over time? You mentioned the 30% increase in balances and wider margins, but just in terms of the revenue contribution?

And then more generally, just how we should think about CIB revenues over the medium term versus very strong revenues for the last few years. So if trading income declines, what are the offsets to that, and how should we think about the medium term?

And then the second area is just on asset quality. US cards arrears, particularly 30 days, picked up in the quarter. I don't know if there's anything that you'd want to highlight there in particular? And then back on your Downside 1 scenario, you've already talked about the 20% HPI impact, so if I understand correctly, your current reserves effectively are equivalent to something like a 2.5% GDP contraction, 6.5% unemployment and 18% to 20% HPI. I just wanted to confirm that that's the case. And then also, how quickly you think provisions normalise, what would be the drivers for that?

### **Anna Cross**

We are pleased with FICC, that's our third quarter at over £1.5bn. There are a few things in there. We called out the financing revenue. As for proportion, that will move around a bit, depending on what's going through trading, so we think it's actually a less helpful [statistic], but we have seen balances grow by over 30% year on year, and spreads have widened. But more broadly than that, I think even in the slow side of FICC, we are seeing increased share pretty much across markets now. We think that's as a result of our client focus, but also the investment that we have put in the infrastructure and the talent in that business. So you're right, when volatility recedes, we might expect revenues to drop back, but they won't drop back, to levels pre-pandemic. And we think that's the most important thing.

What are the offsets to that? Well, clearly banking is having a quieter period right now. That is clearly driven by the same piece, volatility in the market gives us elevated Markets revenue, depressed banking, so we'd expect that to come back somewhat. The other piece to remember, because we always all forget, is Corporate, and particularly Transaction banking.

Transaction banking is a stable franchise business, but one that is also benefiting from the investment that we've put behind it. You're seeing balances grow, you're seeing margins somewhat wider, but also, through nominal economic activity, you're seeing trade finance, FX, etc. going through there in fees. So whilst individual pieces might drop back, Rohith, we do have, increased confidence in the whole.

### **C.S. Venkatakrisnan**

I would echo what Anna said about confidence in the whole. I think, as rates have risen and spreads have widened, fixed-income financing, not just balances but profitability per unit balance, has increased. And it's long been part of the DNA of Barclays. We've got a market-leading position in this area. So I think it's part of a broad set of things within the Markets business that represent a diversified portfolio of activity, but I think look to this, in this kind of environment, to provide a strong amount of ballast to our returns.

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

Sorry, just before you move onto the cards, I appreciate you don't want to give a proportion, but can you help us scale the contribution from FICC financing?

### **Anna Cross**

We wouldn't give that out on a call like this, Rohith. We'll continue to consider our disclosure around FICC, and indeed the other parts of Markets, and we'll come back to you on that.

On US cards, arrears have ticked up a little. Balances are growing, we're seeing increased economic activity in the US, manifesting itself in our card stock, people are spending more, we're seeing organic growth. Given that movement, from a very, very low base, we would expect to see some movement in staging and some movement up in delinquencies.

We're not concerned by what we're seeing; it looks broadly in line with the industry. It's what we would have expected. It remains quite a long way below pre-pandemic. And the fundamentals of the US economy are pretty strong. Unemployment at 3.5% and we're still seeing strong levels of repayment across that book. So no concerns now.

We've shown you what would happen if we weighted 100% the Downside 1 scenario. And we've called out for you the main macroeconomic variables that Downside 1 represents, so 6.5% unemployment in the UK for example.

So you're right, that's the comparison we're drawing. So in other words, if we saw Downside 1 pan out exactly as we show it in that model, then we would expect to cover it with PMAs. Sometimes the macroeconomic variables don't flow exactly the way we model them to, so that's a specific scenario that we're calling there. But we feel like we're well covered

On the pace of normalisation. I guess we would expect to trend towards that 50-60bps as we grow and economic activity recovers. The thing I'd just call out for you is, given the nature of IFRS 9, that pathway won't necessarily be linear. We can see some lumpiness. So that's more a go-to position, once we see economic volatility settle down a bit.

### **Omar Keenan, Credit Suisse**

I've also got a follow-up question on the Downside 1 scenario, and a second question on bank taxation. Firstly, on the Downside 1 scenario, thank you for that helpful disclosure. I think we can all make our assumptions of various downside cases, but GDP down 2% and unemployment at 6%, probably not as bad as you can imagine things, but it's probably a reasonable downside case for now.

So if things were to materialise in that direction, could we assume that there would be a smooth allocation of the post-model adjustments towards the modelled provisions, somewhat like we have seen this quarter? Or do you think there could be pressures to keep the uncertainty buffer at a high level, despite the macroeconomic deterioration?

And just related to that, could I ask you how confident you feel in that Downside 1 model scenario? I guess with interest rates where they are, could that affect the ability of otherwise performing exposures to pay? Just want to get a feel as to how confident you are in that modelled number, given that it is a model.

And then, the second question on bank taxes. Obviously, there's a bit of discussion around where the surcharge is going to be set. I wonder if you can give us any update there, and whether you've had any discussions with the Bank of England on reserve tiering?

### **Anna Cross**

Good question on the impairment. We'll take that quarter by quarter. You can see what we've done this quarter, we've seen a general movement in the MEVs (macro-economic variables) and we've broadly offset that. The answer is whether or not, or where, that impairment starts to manifest itself. So, for example, in the UK retail bank, we are holding a general economic uncertainly PMA, whereas in the wholesale side of things, we're more sector-specific. So I would expect it to have some smoothing impact, whether or not it's exactly smooth, quarter by quarter, will depend where that impairment manifests itself.

In relation to Downside 1, you're right, no model is ever perfect, and I'm going to hand over to Venkat in a moment because I know he'll have a view. These models were built during periods of low interest rates, and so there is clearly an impact on affordability from inflation and from interest rates, which is difficult for those models to represent. But that's why we've been conservative in our stage one and stage two provisioning. When you look at the stage one and two provisioning across the unsecured books in particular, that's how we're trying to protect ourselves against that.

### **C.S. Venkatakrisnan**

I think what you should look at, is the combination of the modelled output plus our extra post-model adjustment as our view of what we think is appropriate during the current macroeconomic conditions, and the uncertainty of the model behaviour. Now, if conditions change and we get less uncertainty, we will do what we just did this quarter, but we're also looking at consumer behaviour, and we will make adjustments to that, but I think you've got to expect, all other things being equal, that we would look at it the way we did this quarter.

And if I can then go to your second question, which is about taxes, and you had two parts, one was reserve tiering and the other was surcharge. On the overall taxation matter, it is something for the government and the Chancellor to decide. We read the newspapers as you do, and so we'll wait for the budget statement to know what it is. And on reserve tiering, I think the Bank of England has been fairly clear that they don't believe in reserve tiering as a tool [to control] monetary policy, so we'll go with that too.

### **Chris Cant, Autonomous**

Thanks for the FX colour in the slides as well, that's much appreciated. If I could just invite you to talk about your view on returns into next year? You've had a very longstanding >10% ROTE target; I think you originally gave that back in 2017 as a medium-term target. You're expecting to deliver that this year, despite obviously the shelf over-issuance charges you've taken, which are not expecting to repeat next year.

Your TNAV is dropping because of rates. You've got a meaningful FX tailwind, looking into next year. Should you not be targeting something punchier on a forward-looking view? And do you expect to be revisiting that >10% figure, please?

And then on the structural hedge, obviously we've had years of growth in the structural hedge, it's up very materially since pre-COVID levels. I appreciate your comments about some migration into savings products as an alternative to current accounts, do you expect your structural hedge notional to shrink in the coming years, please? Do you expect that size to be coming down as the yield is increasing?

### **Anna Cross**

On returns, you're right we've made good progress towards that target for FY22, and we've delivered >10% in FY21. The target is deliberately a floor, so it's >10%, and you can see that, for a few quarters now, that's where we've set our expectations. We won't update, Chris, at this juncture. I take your point on TNAV, but given the effect on reserves of some of the macroeconomic volatility that we've seen, that TNAV number is moving around quite a lot. It's probably moved significantly since the quarter-end again, I would think. So we're not going to update at this point, but I would just note it is a floor to our expectations.

### **C.S. Venkatakrisnan**

I think I'll repeat and echo what Anna has said, which is it is a floor. You're right, that we set it in 2017 as a medium-term target, and I'm glad we've lived up to the medium-term target, and we'll continue to think about it.

### **Anna Cross**

When we put the structural hedge together, Chris, you'll note that we've done it over a series of quarters. We've been very thoughtful about how we've built the hedge and, at all stages, we've assessed the outflow risk versus the opportunity cost of not putting the hedge on.

We've obviously maintained a buffer for conservatism, as we've put that together. That buffer contains our expectations of product migration. If that proves to be wrong, obviously we're rolling a portion of the hedge, month by month, as well, so that gives us further flexibility, but to date, the moves that we've seen have been in line with our expectations, and we did build it conservatively, we believe.

### **Chris Cant, Autonomous**

Did the size of the buffer that you had in scaling the hedge take into account things like large competitors offering 2.75% on instant access savings, and 4% on 1-year fixed bonds? I guess the move in rates in recent months has been very dramatic, we're talking about the UK base rate going to maybe double the level consensus would have been thinking about even three months ago, but that was part of your scaling of the hedge, you were factoring that magnitude of rates movement?

### **Anna Cross**

As we scale the hedge, we identify what we believe are rate-sensitive balances. So in part, yes. Clearly, not the specific rates that you've quoted there, rates are moving all the time. We believe we've got a competitive savings product ourselves, and actually we're seeing little migration, in fact practically no migration, out of the bank, and migration within our expectation to those products. We do consider migration when we put the hedge together.

### **Martin Leitgeb, Goldman Sachs**

I was just going to ask a broader question with regards to the outlook for your UK business, just specifically about the mortgage rates. Mortgage rates in the UK have risen from around 2% at the turn of the year to around 6% most

recently, and I was just wondering how do you see this impacting your business? One, in terms of affordability, has the underwriting been done at such a level that essentially the bulk of your mortgage borrowers can afford these higher rates without cutting spending too much?

And secondly, in terms of what these higher mortgage rates mean for the outlook for growth in terms of balances, both on the loan side, so mortgage growth and credit card growth, but also in terms of deposit balances. Could these higher mortgage rates essentially be an incentive for customers to using some of their deposits to more aggressively pay down mortgages and to lead to a meaningful change in terms of the outlook for growth?

### **C.S. Venkatakrisnan**

First of all, on mortgages, we've got a very large mature book. Our average LTV is around 50%. Where the UK market is, with a combination of two-year and five-year fixed, about 30% of our mortgage book will refinance over the next year, let's say by the end of 2023. And so a little bit of that in 2022, and about a quarter of the book in 2023.

And so what that does, and to part of your other question, is obviously when we do issue mortgages, we do stress them with a fairly big shock in interest rates in terms of affordability. So the combination of that and the fact that it's about 25% to 30% I think mutes its impact on this portfolio.

And I think also what we are seeing in the UK is a little bit of monthly overpayment. It represents 20bps of our total balances, it's a very small faction, but you are seeing it. Which is good from a credit quality point of view, but it's also prudent financial management, as you might expect. So I think broadly the behaviour is as you would expect in an environment like this.

### **Anna Cross**

The other thing I'd say is that, given the house price inflation we've seen over the last few years, the LTV of the customers coming to refinance now will be lower than it was when they took out their mortgages. And that might be part of the incentive that's behind the overpayment trends that we see right now, the opportunity to move yourself down an LTV bracket.

In terms of loan growth, I would say this feels like a remortgage market rather than a house price market. That will necessarily lead to lower net growth, I would think. So I would expect to see strong remortgage demand but a large part of that will be churn in the market.

In terms of the rest of loan growth, you can see from repayment rates that we've talked about in cards, IEL growth, interest-earning lending growth, in cards will probably be a bit sluggish as well. But given where we are in the credit cycle, I think we're okay with that. So probably a little bit more muted on loans growth, and similar in deposits in comparison to what we saw during the COVID period, we've already seen that slow down a bit, seeing a bit of migration but within our expectations, and customers putting that money to work, whether that be in savings or indeed through mortgages.

### **Martin Leitgeb, Goldman Sachs**

Could I just follow up on the outlook for card growth in the UK? Because obviously the start of the year was a very strong trend, would you expect that to slow down as a consequence?

### **Anna Cross**

Let me distinguish two things. I think headline growth or headline balances may grow, but that's in part our strategy. We are trying to pivot the book towards spend rather than lend. Our new Avios product is doing pretty well in terms of take-up. I wouldn't expect that to translate through to significant increases in interest-earning lending. Customers are being very cautious in the current environment, and the repayment rates remain very elevated.

### **Edward Firth, KBW**

I just had a couple of questions, both around credit. What I'm trying to do, in my mind, is I'm just trying to square your comments at the beginning about the outlook for the UK and the demanding and uncertain environment, and I guess that's consistent with what the consensus view is in the UK, with your comment that you expect provisions to normalise. Because it seems to me those two are inconsistent.

Either that means your normal provision is not a normal provision, it's actually a peak provision and we should be thinking about Barclays through-the-cycle provisions being much lower than perhaps we have done in the past, or potentially we could see provisions go somewhere above normal, because the environment is not normal. That would be my first question, just really to understand how you're talking about normalised in the economic outlook.

And related to that, in terms of your PMAs, just to get this clear, if you hadn't released a £300m PMA override, your charge of this quarter would have been around 70bps?

And then finally, could you tell us something about what's happening on the front line, in terms of just in the last month? I know it's not really part of the quarter, but I'm thinking we saw this big uptick in mortgage costs, really just over the last month, and I just wondered if you could give us some insight in terms of what is happening in terms of volumes of new business in October. Are you seeing an uptick in rejection rates? Are you finding that people are not meeting your affordability criteria anymore? Or just something that's very specific in the last month really, since the results-end rather than during the quarter, if that would be okay?

### **Anna Cross**

Let me deal with the simple one first. Your articulation of the impact of the PMAs is exactly correct. However, what I would say is that that's exactly why we established the PMAs in the first place, because we felt that the economic environment was extremely uncertain and that the consensus that we were using for the model did not adequately capture the risk that was out there. So that's what we expected to happen, that is what's happened, and therefore that's why we released the PMA.

In relation to your credit question, there's a bit of a dichotomy here between what we see now on the ground, no visible stress, and the macroeconomic forecast, and indeed beyond those macroeconomic forecasts into some of the economic commentary.

So there are a number of different views that we are dealing with here, but, to a certain extent, it points to the conversation we had before, which is we would expect a trend towards a through-the-cycle cost of risk, but if we are to see macroeconomic shocks in terms of expected environment in one direction or another, I would expect that to be lumpy. That's just the nature of IFRS 9, and a little bit of what you see in the current quarter.

### **C.S. Venkatakishnan**

Let me take the other question about what's going on at the front line, especially since the end of September. Obviously, the end of September came in the middle of the peak of the scale to volatility, and outside of the capital markets there was a bit of a rush for people to adjust their mortgages, fearing even higher rates. And what we were doing was we were processing the applications, and we saw a little bit of an uptick on that.

On the consumer credit side, what I would say is initial conditions coming into this have been very strong, so have consumer balance sheets, high amount of support that people have experienced in COVID, low unemployment, which continues, and then obviously higher energy prices but increased government support to manage those energy prices.

So with all of that, and with our rising cost of living, and then, at the end, higher mortgage rates, we're seeing a little bit of decline in consumer confidence in our own private polling of it, to how people feel about their finances. We see people being more careful in their spending, and the management of certain non-essential types of spending, but we are not seeing credit stress.

About 1% of our customers are in financial assistance, which is a fairly low number, so we're not seeing credit stress. Obviously, we have to be cautious because we don't know how much deeper some of these things can get. We're in the middle of a rate-rising cycle which generally tends not to be good for growth. Growth in the UK has been low anyway. So we've got to be cautious looking ahead, but as for a sort of live indication right now, people are managing their finances carefully.

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

The first one is on the appetite to lend in the UK right now. I guess you've given a bit of flavour around why you're happy to see sluggish growth, given the backdrop, but how does that play into the spreads you'd like to get on new lending? Obviously, there's a lot of volatility on mortgage rates, given where swap rates have moved, I'd be interested

in where you'd expect things to settle. If we see some stability in swap rates, should we expect slightly larger spreads than what we might have seen in recent history, to account for the higher risk of credit losses, RWA migration, etc.?

The second one was on ECL coverage. Intrigued there's been very little change in the quarter, and I note you've reduced the weighting to the Downside scenarios in the IFRS 9 models, we might have expected the opposite, although appreciate Downside 2 scenario is very severe. But in coverage terms, I think most would say things have got worse not better in the last three months, for mortgage debt service ratios, etc. Is it just a case of it just not bad enough to really move the needle on the ECLs that you would look to hold?

And just a quick follow-up on that as well, thanks for all the colour on the Downside scenarios and the ECL provisions. Could you just remind me how you would account for negative stage migration into, say, wholesale stage three, for instance, when you come out with those ECL numbers?

### **Anna Cross**

In terms of lending demand, lending supply, and how that plays into margins, specifically in relation to mortgages, the mortgage market is competitive, it's always competitive. We've seen it move in line with the yield curve and we'd expect it to do that.

As I've said before, pricing will be key, not least because if this is a remortgage market, that tends to be very competitive. If customers are remortgaging early, they will be looking for the best possible value, so we'd expect margins to be quite skinny, not only on the front but that will create some churn pressure, I would expect also. As relates to credit expectations and how that plays into pricing, I would expect that market participants price for a through-the-cycle view of risk, so increased credit concerns, I wouldn't expect to impact pricing significantly.

In terms of your coverage point, I think we believe that our coverage is appropriate. You've obviously seen it go up from Q2 to Q3 in terms of our early-stage coverage in unsecured in particular, so we feel like we're appropriately covered there.

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

We're dealing with an environment that has been choppy. We are dealing with models that tend to be procyclical and which have been built on a period, as Anna mentioned earlier, of generally falling rates and falling unemployment, so we have to recognise the weaknesses in the models we use, and that's what we've tried to do.

And I think we put forward our best estimates, and I think using the combination of the two, tried to manage it in a predictable way, related to the environment that's outside. So we feel reasonably comfortable with the way we are reflecting both of these two things.

### **Anna Cross**

Yes, I think the balance sheet on aggregate, Guy, what you can see is that we've got £6.4bn of provisions, £2.4bn of that relates to default stock. So £4bn is against non-defaulted stock. And that's in an environment where, as you can see from the charts that we showed in the presentation, we strongly feel that the quality of the book that we have in terms of the risk of it or its shape is lower than it was, and indeed in wholesale we've increased the level of first-loss protection. So it's actually a number of things coming together, and looking at individual scenarios I don't think quite captures the extent of our comfort. Could you just repeat your third question, please?

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

Yes, sure, and thanks for all the colour so far. The third question, or follow-on, was just around how stage migration is embedded into the ECL disclosure you give for downside scenarios, just to gauge the relative conservatism of the ECLs that come out and comments around you could switch the PMAs to absorb a Downside 1 scenario.

### **Anna Cross**

I'm sorry, I still don't understand your question, Guy. We might need to take it out of the room. We'll come back to you. Probably need to talk that through.



### **Adam Terelak, Mediobanca**

I have a couple around capital management in the CIB. I know you've had the roll-off of the ECM hedging, but RWA generally does look quite light for the quarter. You've got loans up double-digits, quarter-on-quarter, but risk weights are up much less than that, so I was just wondering what's going on behind the scenes there, in terms of balance sheet management into quarter-end. I know you mentioned that you were adding credit hedges on the wholesale portfolio, whether that's had an impact?

And then, as a follow-on from that, clearly you guys are involved in a big leveraged finance deal, headlines suggest that might end up on your balance sheet. Rather than commenting specifically on the deal, can you just, maybe anecdotally, talk about how you'd be managing that risk in reference to what you've already done in the third quarter?

### **Anna Cross**

Okay, in relation to capital management in CIB, we're just very disciplined. There's nothing in particular going into that quarter-end. It doesn't relate to a quarter-end rapid increase in that coverage at all. I would say through the quarter we've been helping facilitate client business, in terms of what we've been holding on our own balance sheet is actually being handled extremely conservatively. So I don't think there's anything untoward there, other than RWA efficiency.

### **C.S. Venkatakrisnan**

As far as the leveraged finance business goes, we've always run a fairly systematic approach to managing the risk in the leveraged finance book. I can't comment on the particular transaction, but let me say, generally, that that risk management has two parts to it, one part that is to buy protection against extreme movements in markets, and the most recent time that that really protected us quite well was during COVID, where you had obviously fairly rapid movement within the month of March 2020, and then back in April.

The second way is occasionally, for what might be large exposures, trying to see if there's a way, again, to protect ourselves against extreme moves in that. So you should expect us to employ both, the first systematically, the second opportunistically, to try to manage the risk in our leveraged finance book. But that's something we look at closely all the time.

### **Adam Terelak, Mediobanca**

Just on the [CIB] loan book, what drove that double-digit [growth] quarter-on-quarter?

### **Anna Cross**

Well, there'll be an FX impact in there. So there's some FX inflation. In terms of corporate lending, by the time you strip out the FX, it's not significant, particularly. And the increase in wholesale lending that we've seen has been largely to investment-grade businesses, existing clients. Nothing of concern.

### **Rob Noble, Deutsche Bank**

Two, please. Can you give us some idea of the composition of your mortgage book, split by loan-to-income multiples, rather than by loan-to-value? And what proportion of both your mortgages and your credit card book in the UK is to lower household income deciles? So we can get an idea of how the cost of living impacts the book that way round.

And then secondly, in Barclays UK, you're still seeing decent growth in non-interest income, so if I see a decline in real household spending, will that number come down, or will the inflation and the nominal growth still see growth in non-interest income for UK retail businesses?

### **Anna Cross**

We don't give a loan to income split. However, like all banks in the UK, we have some regulatory limits on higher loan-to-income, so loan-to-income above 4.5 times is significantly reduced. In terms of cards, again we wouldn't disclose that in particular. What I can tell you is that repayment rates across the risk deciles are all elevated.

So even in what we would describe as lower deciles of risk, repayment rates are significantly in excess of the monthly contractual payment, and significantly in excess of what they were pre-COVID. And of course, balances are also lower.

So we are identifying, clearly, customers who we believe are under more financial pressure, using our data. But we believe that their behaviour is managing their risk down.

In terms of non-interest income, that is geared, in part, to card fees, and also interchange fees, so it's linked to card usage. So to the extent that customers continue to use their cards but pay them off, we might expect those trends to continue. If we were to see customer spending fall sharply, then obviously that number would go down.

### **Fahed Kunwar, Redburn**

Just a couple, one on the hedge and one on your UK NIM guidance. Maybe I'll start with the NIM guidance. The swap curve's gone up about 200bps since you gave your 280-290bps NIM guidance, I'm just wondering why you haven't upgraded that guidance, given the size of your hedge?

And then the second question, just going back to Chris's question on the hedge, do you see something structurally different in the way consumers save and corporates save? And the reason I ask that is when time deposit rates were last this high, time deposits were around 50% of all savings pre-financial crisis, they are now a lot lower than that. At that point, your hedge is probably running at more like £100bn rather than the £260bn it is at the moment. Is there a reason why the hedge, and ultimately the level of interest-free balances would be structurally higher right now than they were pre-global financial crisis?

### **Anna Cross**

Okay, on the NIM guidance, we have guided to the top end of the range that we gave you, of 280-290bps. That reflects two things. Firstly, the NIM year-to-date, but obviously that hedge pick up. The reason that we have split out the two impacts that we've shown you there, so the hedge movement and then the product impact, is we've said for some time that we expect that the product dynamics, as rates started to rise, would become less beneficial for NIM.

And we see that coming in two ways. It's not just about pass-through of any rate rises from here. It's actually about the dynamic that your second question points to, which is customers moving their savings, and secondly the compression and the competitiveness that we see in the mortgage market. So we feel, at the moment, like those product dynamics are going to bear more heavily than perhaps they have done to date. That's the reason for our caution. And that's the reason that we've split out the structural hedge impact, so that you can think about those two things separately.

In terms of your second question, as to why things might be structurally different, I think there's one macro piece, and then there's one probably more bank-structure piece. The first is that total deposits are higher. We've seen sustained QE, there is a lot of liquidity in the system, and I would also say that banks, retail and corporate banks in particular, are in a materially different position liquidity-wise versus where they were pre-GFC.

There, you had loads of deposit ratios of well over 100%, banks relying on term deposits as a source of funding. I think here what you're seeing is term deposits as a franchise offering. That's a different mechanic. So we'll see how this pans out, but I would say that there are structural differences to the macro and also the way banks are constructed versus 2005, 2006, 2007 and beyond.

### **Fahed Kunwar, Redburn**

Does that imply you'd let your loan-to-deposit ratio pick up because you wouldn't need time deposits, you'd structurally price a lot lower than your peers, because you wouldn't need those time deposits?

### **Anna Cross**

I think most UK banks are in a similar position. Their loan-to-deposit ratios are lower than they were. And I wouldn't comment on competitors' pricing on this call. I think it's more of a structural piece across the industry.

Thank you, everybody. Fahed was the last question. Looking forward to seeing some of you next week, and many of you in the coming weeks. Thank you.

### **C.S. Venkatakishnan**

Thank you.

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