

Barclays PLC Q3 2020 Results**23 October 2020****Results call Q&A transcript (amended in places to improve accuracy and readability)****Jonathan Pierce, Numis**

I've got two questions please. The first is just a broad one on impairments. I'm trying to get a better sense as to what you are thinking into next year, accepting of course considerable uncertainties.

Is your thinking that next year will continue to have normal underlying charges of £600 to £800 million, as we've been seeing in the last few quarters, but any increase over and above that, as things generally deteriorate, will be covered by the reserve releases that you built in the first half of this year, assuming the models are correct of course? Therefore, are you thinking that next year the impairment charge, all else equal, will be something in the order of £3 billion? I'm just trying to get a better handle on what you're thinking about next year in terms of impairments.

The second question is away from these results. It's about these two 10% bonds that you've got maturing in the middle of next year, it is £3 billion across the two I think, so it's quite a significant interest expense. It's not, as I understand it, being taken in the Head Office. Those were issues nearly 12 years ago now. Are they still hedged from a rates perspective or are we actually talking about a gross £300 million drop in interest expense in the middle of next year when those bonds get redeemed?

Tushar Morzaria, Group Finance Director

Why don't I take both of them. In terms of the impairment, the way I think about it is with the building blocks that you are very familiar with and you will have your own views on the economic environment that we find ourselves in next year. If it's consistent with our current forecasts then we wouldn't expect material change in terms of book up or release necessarily, so that's one thing and you'll have your own views on that.

The second thing is assuming that the economic forecasts play out as we've forecast, you're right to say that the book up that we have ought to be digested over the course of next year. The slight complexity is that this is an expected loss that we've taken so there will be some names both on the consumer side and the wholesale side that will default and some names that will cure. If that all happens at exactly the same time, then you would have a very smooth impairment profile; in the words you describe, your typical underlying level.

Chances are though that it probably won't be quite that smooth. You'll probably have defaults happening at a quicker pace than you normally have cures and that's just us probably being conservative and holding onto credits rather than curing them so quickly. Having said that, if you look over a multi-quarter period, maybe four quarters or something like that, then I think the book up ought to be digested and there will be no net effect over the year. But during the course of the year it may be a little bit lumpy.

The other thing that can sometimes get accentuated is if there are any tall trees on the corporate credit side in wholesale unlike consumers where you've got millions and millions of consumers. So the statistics around them work well with corporate credit because it's just a fewer number. You sometimes get the odd timing mismatches as tall trees default but a large number of corporate credits don't necessarily cure quickly.

Away from the results, your second question on the expensive legacy debt, you are right to point that out. They are expensive. We're looking forward to no longer having them, the remnants of yesteryear. We do hedge the interest rate risk but some of this will get refinanced of course. We've talked about how much MREL we net issue over the course of the year.

And in terms of the interest rate hedging, we do tend to manage it on a portfolio basis so I wouldn't necessarily just think about it on a security by security basis. I would just caution in terms of overstating, if you like, the tailwind from those securities dropping off. But of course it is a tailwind. I just wouldn't want you to overstate it.

Joseph Dickerson, Jefferies

A very solid quarter there. I just have a question on the CET1 glide path in the next year. Could you quantify a range that you're budgeting for some of the regulatory headwind in terms of basis points?

And then could you also opine upon the buffer to MDA? We had CP17/20 out on Tuesday looking into the usability of buffers and also the point of holding excessive management buffers, and you're currently 330 basis points over your MDA. Some view on how that plays in as well to the capital that you'll want to hold versus distribute?

Tushar Morzaria, Group Finance Director

It's hard to give you a basis point number on headwinds but there are some things that everyone ought to be aware of and hopefully we've trailed them well, but I'll just call a couple of them out again.

We had a PVA benefit, a technical benefit that was introduced this year under the rulebook. That will go away in Q1 next year, so you probably want to see that as a headwind into Q121.

I would remind folks on IFRS-9. You've really got two things going on in IFRS-9. You've got the original transition relief. We're going into the next year, so [there will be] a step down in that first portion of transition relief and then the second portion of transition relief as names migrate from stage two into stage three, there will be a capital effect to them.

The other is also on the credit side, particularly where we probably haven't had quite as much procyclicality as we anticipated. We saw another £3-odd billion or so in Q320 and we've taken a bunch of management actions in anticipation of that which has been more than offsetting.

I still think there are probably more headwinds to come. These will be default grade downward shifts and similar type items on the counterparty credit side and on the traditional credit side. It's pretty hard to give a number on.

We've had some natural tailwinds against that, for example the flow back of revolving credit facilities. I think we're probably largely done with that actually. Our draws are now back to pre-COVID levels or even a touch better. Capital markets have been so strong. So that's why I said we've had a very strong running in capital. I'd just be a little bit careful people don't over-extrapolate that.

The other thing I'd say is we do typically go back in capital in Q1. That's something we do most years and are very comfortable doing that. It tends to be the most profitable quarter of the year so we do like to put capital to work then.

But when I look at that all in the mix, I still think we're going to be a reasonably capital generative institution. Some of those headwinds that we will experience next year, if we really think we're in a recovery year, as certainly most people expect some form of growth and tempering of unemployment, then we ought to be reasonably profitable, so of course that's the balancing act here. You've got some perhaps tailwinds for capital when profitability is hard to come by. You've got some headwinds and that will be swapped with a better profit run into next year. So we are confident of our capital generation but just caution folks not to over-extrapolate.

In terms of buffer to MDA, I won't give a precise number of what the buffer to MDA we will be comfortable with in any one particular quarter. All I would say is that it will vary over time, and you've seen that this year of course. We would always want to run a comfortable buffer above MDA. We talked about it in our scripted remarks. We do think distributions to shareholders are important and you need to have a comfortable buffer above MDA to allow you to do that. So that is something that is important to us.

The consultation paper you referred to, I think it's a bit too early to comment as to whether that's going to really change our thinking about capital levels. To be honest, we're in the midst of the COVID-19 situation at the moment. I think when we get to the other side of that and we have a better sense of where the land lays and probably after Brexit as well, the PRA may make some other comments on what they expect UK banks to do in a post-Brexit environment when they're more in charge of the rulebook. I think that will be the right time to be talking more directly about that.

Alvaro Serrano, Morgan Stanley

You mentioned there are still revenue headwinds in BUK. Can you help us with the headwinds you see, obviously still from the structural hedge, help us quantify that, versus presumably the tailwinds that come from mortgage volumes and mortgage pricing, how that's at play and help us get our head around what the headwind might be there?

And the second question on cost, you said you are evaluating cost initiatives. I'm thinking, excluding the Investment Bank, if I think about BUK or the US business, CC&P, can you talk us through how much would be infrastructure or give some colour versus headcount reduction because you now don't need the distribution network you might have needed pre-COVID? I don't know if you can quantify it at this stage but at least headcount versus structural network and things like that, can you comment on that please?

Tushar Morzaria, Group Finance Director

Why don't I take the first one and Jes can talk about how we're thinking about cost. On the revenue headwinds/tailwinds for the UK business, in terms of the headwind side I would remind people that with the structural hedges, people have their own view on what the rate environment is, but if it is as we have it at the moment, our fixed receipts swaps will grind into lower fixed levels. That's a headwind and you can see how swap rates have come down over the course of the last 12 months or something like that. We've called out some numbers on the slide. So I think that is one headwind. That also has an effect for NIM as well, so there will be a dilutive effect as the fixed receipts earn less.

I think another thing in terms of headwind, I say for NIM but as an income matter as well on a year on year comparison, we've seen our unsecured balances stabilise, but we haven't seen them grow. It's going to take some time for them to grow.

First and foremost, on the very positive side, we've seen consumers deleverage quite well, so they're anticipating tough times and that's really positive and hopefully you'll see that come through impairment.

On the second thing, you can see our deposit levels are super-strong as well. At Barclays it's a striking number. We have almost £0.5 trillion of deposits now at Barclays. It just shows how powerful savings rates have been across consumers and corporations. That will lessen, you would expect, the need for revolving credit. So that will be a headwind into next year as well.

Now on the flip side, you did point out mortgages and I think that is a bright spot. Application levels are running at pretty robust levels and somewhat probably fuelled by stamp duty relief and pricing has stayed pretty competitive. I guess the only challenge though with mortgages is you will get the net interest income benefit but it comes through a little bit later. So I'd say for NIM as well, of course if you're growing your secured book relative to the size of your unsecured book, then that's a headwind for reported NIM.

So just on the maths of all of this, you can see that there's downward pressure on NIM going into next year, but mortgages look like a pretty decent bright spot. Jes, do you want to talk about cost?

Jes Staley, Group Chief Executive

Let me start by saying we as a management team have put restructuring this Bank behind us over a year ago. When we think about taking the Bank forward, what we want to look for is growth. I think in the midst of this terrible pandemic that we're generating profits every quarter, getting the highest levels of capital, being very liquid, significant impairment reserves, this is when you look to invest in the business and that's what we're doing.

If you look at the IB, we have one of the lowest cost/income ratios in the industry. And given that we've taken on market share in the Markets business from c.3.5% to c.5%, we want to continue to invest in this. So I wouldn't look at performance in the IB around reducing costs because I think costs are quite low versus our revenues, but can we continue to drive revenue growth there?

To CCP, we've flipped back in the third quarter to roughly a 15% return on tangible equity in that business. Payment volumes were up some 30% versus the second quarter. In our US card business we've announced two really good co-branding partnerships, one with AARP which, for those elderly people who live in the United States, is quite a program, and then Emirates Airlines, one of the biggest international carriers. When people start flying again, that should hopefully be a good co-branding card for us as well. So we've got a good level of profitability there and it's a business we want to invest in.

The challenge is in BUK. We have the headwinds of close to zero interest rates in the UK. We have a lot of banking services delivered for free in the UK. So there will be some pressure. We've been very focused, however, on dealing with our consumers and small business clients in the UK and our employees to deal with all of them in the face of the pandemic. So we are now on a six-month break from any redundancies in terms of FTEs. We thought that was the appropriate thing to do.

We have done some modest branch closings that had been in line with our program set out before COVID-19. It's really reflecting the fact that, as you point out, our customers are increasingly going digital and where branches aren't really being used it doesn't make a lot of sense to maintain them. But it's at a modest pace and we recognise the importance, particularly when we're the last branch in a town, to deal appropriately with that.

With 65,000 people working from home, I think every business, and I'm sure yours, is looking at one's future real estate program. But we really don't know, I don't think, yet what all of this means. It's going to

take a while to really address the outcome of having two-thirds of our staff working from their kitchen tables.

There is some tech spend which I think we can focus on. We've been trying to get much more productivity in our tech spend before. So we'll keep an eye on the costs in BUK. I think there's no need for any major restructuring, but given the profitability challenges I think we will be focusing on that but I wouldn't expect any grand statement from us.

Rohith Chandra-Rajan, Bank of America

I was wondering if I could follow up on the revenue outlook for the consumer businesses. Firstly, just in terms of that mortgage re-pricing, is it reasonable to think, given that we've had already a couple of quarters of much better new mortgage spread, that it's probably the middle of next year by the time the proportion of the book on those better spreads starts to support the margin in BUK?

And then secondly, I guess just differentiating I suppose between the credit card evolution in the US and the UK, can you talk a little bit about the trends that you saw through Q3 and the first three weeks of Q4, and then how you compare the outlook between the two? Jes just mentioned the co-branding deals that you've done in the US. When do they come on line and how would you compare the outlook for the US and the UK cards businesses?

Tushar Morzaria, Group Finance Director

In terms of mortgages and how that flows into net interest margin upward pressure, on the positive side the churn rate is actually positive now. In the past we've been cannibalising our margin as back book matured into front book. It's positive now and it's actually meaningfully positive. It's about as wide as I've seen in recent times, so that's positive.

The only reason I would caution people to not get too ahead of themselves on this is if we originate in any typical year, and I'll give you really broad numbers, somewhere, £5 to £10 billion of net mortgages in a typical year, we've got a mortgage book of about £140 billion. So it takes a bit of time for that churn, that grind to really drive upward pressure on NIM.

At the same time, if the card book actually declines, let alone flat lines, then of course you've got some quite significant downward pressure because that's a much higher margin. So I think the spirit of your point is right, but it does take a bit of time.

I think in terms of your timeline, will it have net positive pressure on NIM at the back end of next year? Maybe. It feels a bit early to me. I think it takes quite a bit of time for it to churn through, with just the law of numbers there really.

Rohith Chandra-Rajan, Bank of America

So you've talked about a net number that's £5 to £10 billion a year, but actually there will be a lot of refinancing. It's not a net number. It's just a refinancing of old balances. Is that not more positive than the picture you've just painted?

Tushar Morzaria, Group Finance Director

It is, but again you've got to look at the relative size. So when I'm talking about the churn margin being wide, you've got to remember, how much are we making [compared to] a card business? It's a fraction of that. So there's massive downward pressure from the card business and there's some upward pressure.

And given the size, I think if you're printing net something like £5 to £10 billion, maybe you've got £20 billion of gross, and I'm giving you very, very round numbers, it will vary year on year. So yes, you're right, it's a very good point. It's going to be a little bit more powerful because gross numbers are larger but still, the churn margin is positive but it's nothing like as wide as a credit card margin that's going the other way. So it tends to take a bit of time.

Sorry, I was going onto credit cards and the evolution there. A similar story in many ways. We saw card balances decline a lot and then plateau. We're still seeing that plateauing effect. I think it will take some time for both balances to recover. I think in the UK we haven't really hit peak unemployment yet so we've probably got to go through that. We've got a lot of cash on our balance sheets and there are still government support schemes going on. So I think the desire for revolving credit is going to take a little bit of time to come through. On the US we're probably through peak unemployment we think. We've got the Thanksgiving and Christmas period which is a little bit more constructive. The challenge for us is of course our partnership cards are probably overweight in the travel, leisure, entertainment sector so we're working very hard to ensure that spending on that card is something that is desirable for those cardholders.

AARP, the one that Jes mentioned, will close next year and Emirates will be a book that it will take a bit of time to grow that of course given travel at the moment is relatively muted. But I think we feel constructive in the medium term rather than very near term. That's how I would characterise it.

Jes Staley, Group Chief Executive

One thing I would just add is something that we are investing in quite heavily on the technology front is point of sale financing and I think the growth that instalment lending is going to have relative to the credit card portfolio. So for instance we've launched a new app in our German business where we're the largest credit card underwriter there. When you make a purchase with your Barclays credit card in Germany, you get the option of using your revolving line of credit or you can pay over six, ten, 12 months at fixed instalment numbers, and the truth is, Germans tend to borrow in instalments more than from credit cards. And I think you'll see over time an evolution of point of sale financing as a partner to what we do in the credit card business across our platform.

Jason Napier, UBS

So the first question, this is to come back on the questions we've heard already around the outlook for restructuring in costs. One of the things we've seen in previous crises is businesses find it quite difficult to invest as much as they would like during downturns, and I guess there might be a risk that you come into 2021 with some catch-up to do. Consensus currently has costs down year on year next year, presumably linked to softer expectations around revenues in the CIB. Are you comfortable that expenses in aggregate in 2021 will decline?

And then secondly, and I think some of the questions we've already had around what looked like very good margins in mortgages compared to where they've been, if you look at the overall returns in BUK, the issue is not that liability spreads are low but once you take into account all the costs of gathering those liabilities, the half a trillion in deposits that you have, they might be non-existent and actually credit spreads might need to be even wider if you're going to return to above cost of equity returns there. I wonder if you could talk about where you see product level returns on the credit side? Are you comfortable that flow pricing is adequate in the main to get you to that 10% ROTE that you've re-endorsed today? Thank you.

Jes Staley, Group Chief Executive

I'll start and then I'll pass it to Tushar. One of the advantages about where the Bank finds itself today versus where it's been in previous situations is in the face of the COVID-19 pandemic and a very tough economic environment, we grew our capital base [...], we built an equity buffer [...], we generated profitability. We don't have to sit back as a management team and say, do we need to do a major restructuring. We don't. Now, obviously you always want to be running as efficiently as you can.

To your specific question about the CIB, what we've been saying and we've demonstrated amply I think over the last year, one of the characteristics of an Investment Bank is you know you have variable revenues but you also have variable compensation which allows you to calibrate your costs to your revenues, and I think you've seen us do that over the last three to four years.

You do have to appreciate that a lot of the costs we had this year are to make sure this Bank is functioning properly given the pandemic. We've had to go into 35,000 homes and install routers and broadband connections and give people computer screens and telephone hook-ups to make this Bank work. We're going into over 700 branches almost every day with full sanitising and solutions to make sure that our employees in those branches are safe and the customers walking into those branches are safe. On the flip side we're saving money because not everyone is flying on jets all the time.

So I think there is some room to always invest our money more prudently but I think it's more investing wisely as opposed to looking at any big cost overhaul.

Tushar Morzaria, Group Finance Director

Yes, exactly. It's very much as Jes said. I think to follow on from Jes' point on costs, to help you think through next year's costs, our exit rate this year is probably not where we would have preferred to have it. We were quite public in putting a moratorium on headcount reduction over the course of the last six months or so, and we've got no grandiose plans to announce anything around there either given that we may be going into further lockdowns and what have you. So, our headcount numbers are probably higher than we would've expected it to be.

We're incurring, as Jes, mentioned, a whole bunch of operational costs just to keep our businesses functioning in difficult times. So, we probably do have an elevated exit rate than we would ideally have. As Jes mentioned, the restructuring that we highlight, it's really just that we've learnt a lot through the pandemic as well. As Jes mentioned, there are different ways of working that we didn't think were possible. We're examining them, evaluating them, as I'm sure every company and financial institution is. I think that ultimately will result in a much more efficient cost base for ourselves, but we want to be careful and deliberate around any decisions we make around the utilisation of for example, real estate etc. So, we'll keep you posted as we make those decisions.

On BUK product level margin, certainly mortgages at the moment, for example, [have] pretty healthy returns. Even with the changes in risk weights that are coming down the pipes from the PRA, I think returns on front book mortgages is very healthy.

Cards, is obviously a very healthy returning business as well. I'm not as concerned on, if you like, asset side margin. One thing is just, can we generate enough assets just given the liquidity that we've got? You can see our loan to deposit ratio is continuing to decline in Barclays UK. It's almost at 90% now, so it's probably going to be hard yards until the balance sheet starts growing meaningfully again. But I'd say the margin on our balance sheet, certainly for front book business, definitely looks attractive.

Guy Stebbings, Exane BNP Paribas

Firstly, can I just come back to UK costs specifically and check if there was anything in the third quarter that was particularly lumpy that should disappear. I know you referenced the partner finance transfer and the elevated servicing cost, but these are presumably here to stay somewhat. It's clearly a division where we're seeing quite a lot of top-line pressure, but also quite a lot of pressure to the cost bases. I'm conscious that consensus for next year, excluding the levy, is below £4 billion versus a run rate this year of nearer £4.2 billion. So, I'm just wondering if it's reasonable to think you can take necessary actions to bridge that gap, or if the elevated exit rate you referenced might make that quite challenging.

Then the second question is on your disclosure on rates and sensitivity on slide 36, which I'm struggling a little bit conceptionally with. I would have assumed that as we go to negative rates, the impact of the reduction in base rate becomes proportionally more impactful, if you like. But if I'm reading the slide correctly, it looks like at least by year two or year three, that actually the next 15 basis points as you go negative, to capture a negative 25, is proportionately slightly less painful than the first 10 basis points. So, I'm just wondering if I'm interpreting that slide correctly and if that is how you would expect it to work through in practice.

Tushar Morzaria, Group Finance Director

Let me start with BUK cost. A lot of the exit rate pressures I mentioned, some of them are in BUK. So, that's something we will have to deal with and digest as we go through next year. In terms of any one-off items in the third quarter, not really. Not that we'd call out. We called out the partner finance transfer. That's probably, I think, where our costs were slightly above most expectations. Half of that was probably driven by the partner finance geography shift. There's always a little bit of restructuring that's constantly going on in those businesses, so that can be a little bit episodic. We don't call that out, because it will ebb and flow quarter by quarter, but there's a little bit of that in there. That's probably why most people's estimates were a touch lower than we were. So, look, I won't comment on next year's consensus for BUK cost, but hopefully you've got some of the building blocks there to do your own modelling on that.

The rate sensitivity, this one is a slightly trickier one. We put it out there because obviously it's of interest and many banks do put it out there. The challenges, of course, it's a minus 25 basis point parallel shift. Unfortunately, that almost precisely won't happen. Who knows what curve shape will happen. But it will have a different effect if short rates are negative and long rates are positive. It will have a different effect if short rates are negative and long rates are further negative, a downward sloping deeply negative curve.

Then the other thing, of course, is on the liability side. Our Everyday Saver Account, which is our most popular deposit product, I think we pay a basis point of interest at the moment. So, we're not assuming a significant capacity to reprice. I'll just caution people to not perhaps use that as it gives you some information that it's definitely going to be painful if we go into a negative rate environment when both long rates and short rates are negative but just be a little bit careful. It's a parallel shift and we're making some very broad assumptions, it's very hard to know. For example, we don't really know what central bank policies will be around negative rates. Will there be tiering? Will there be other forms of TLTRO and TFS schemes will be different? So, all of that stuff is very much unknown.

The final thing I'd say, one of the benefits of diversification is that we're probably less exposed to UK NIM than some other of our peers. We've got on a slide that 37% of our top line is Net Interest Income. So, you can see that two thirds of the business is away from Net Interest Income. So, that gives us a little bit of protection as well.

Chris Cant, Autonomous

First, a quick one on tax. The effective tax rate this year is 18% so far. Could you just remind us what your current guidance is on the Group effective tax rate and also how that might change if Joe Biden wins the US election and brings in a 28% US tax rate?

Then on cost, I'm a little bit confused about the tension between the RNS flagging potential restructuring charges above and beyond your cost guidance on the one hand but on the other saying you wouldn't expect any grand statement on cost and no big cost overhaul. Yes, you remarked that the CIB is running with an industry low cost/income ratio. I don't know whether I'm misinterpreting that, but it seemed to indicate upwards pressure on costs next year. You talked about the need to grow around that. Is that correct? Should we expect CIB costs to rise next year? Obviously, you've had a stellar year this year, in terms of the cost: income ratio.

Jes Staley, Group Chief Executive

Let me take the last question, because I think the cost: income ratio for the CIB shouldn't really move that much. Obviously, they've had a very strong year and like other banks have said, we don't really see a linear correlation between variable compensation and variable revenues. It's more nuanced than that. So, unless there was a significant change in revenue forecast, I wouldn't expect any significant change on the cost side.

Tushar Morzaria, Group Finance Director

We're doing a lot of thinking, a lot of examining on things we can do to make ourselves more efficient, but we want to be very deliberate and careful before we come to any final decisions around this. The danger is you extrapolate from today to way out into the future and start changing the way you work. Until you really fully understand on the other side of this particular medical situation what's the right way to be running the company. But I think it is something that will lead to efficiencies and will lead to benefits, that's all we're alluding to. We haven't completed that work and when we do that, we'll certainly update you.

Just on the other question, Chris, regarding the 20% effective tax rate, that's excluding litigation and conduct, as we've done in the past, for this year. In terms of US tax rises, yes, look, we'll see. Speculating on elections and all that is way beyond my skillset. But if tax rises do happen in the US, or anywhere else for that matter, that will have a fairly straightforward effect on us.

The only thing I would say is that you'd have this slightly peculiar effect where it will have a beneficial effect on the value of our deferred tax assets. So, you'd have a balance sheet asset that you'd create. As you know, accounting-wise, that will go through your tax line at the point at which that happens. But then you'd have a negative, if you're having a higher effective tax rate along the back of it.

Ed Firth

Two detailed questions. Number one, on the restructuring charges, could we just be clear then? If you have restructuring charges at the full year, are you saying you'll absorb that within your cost target? Because I guess that's a message I'm getting from you so far.

Tushar Morzaria, Group Finance Director

No, just to be very clear, we will be broadly flat year on year on cost. Were we to do any specific restructuring, we would call that out separately away from the £13.6 billion broad guidance that we've given.

Ed Firth, KBW

Then the second one was in terms of the NIM. Overdraft fees, do you have them in the NII? So, shouldn't we see those come back in Q4?

Then the other point was, whatever the interest rate sensitivity works out at, whenever you've shown it to us in the past, it has always been around two thirds in year one and then it grows up to the full amount by year three or so. For the 65 basis point cut we had in the first half, is that still the projection we would expect? So, this year, about two thirds of the impact and then we should expect that to grind on over the next two years. Or has it worked differently in reality this time? So, just how that works through.

Tushar Morzaria, Group Finance Director

Yes, on the overdraft net interest income, yes, it will come back of course a little bit like revolving credit balances. We've had less utilisation of overdrafts all for the same reasons as people are less using credit cards, more cash in their balance sheet and a lot of government schemes that have been very supportive. Yes, it will come back, but it won't come back at anything like the same level we had previously.

In terms of the grinding effect of lower rates, yes, I think that's reasonable. The effect you've got is assets that reprice relatively quickly if not instantaneously. This time around, there's a delay effect in repricing liabilities, which you know about because of the FCA rules on having to notify deposit holders before we change their rates. Then you've got the grinding down effect of the structural hedges. That grinding down effect really depends on where swap rates are at the point at which they refinance. So, if you have kind of what we've seen at the moment, a relatively sharp decline in long rates and short rates together, so pretty much both were at the zero bound, you'll continuously have that grinding effect in your structural hedges over the next two or three years in effect. If curves start steepening partway through that, then obviously it will stop having that grinding effect at some point. But, yes, those are the dynamics.

Ed Firth, KBW

Okay, so it's the structural hedge rolling off rather than anything to do with pricing in the balance sheet.

Tushar Morzaria, Group Finance Director

Yes, that's right if you've got gross mortgage refinancing going, there are some tailwinds that we're seeing at the moment, but, yes, it's so difficult to predict because it's so much driven by the long-term outlook for mortgage pricing and also long-term outlook for swap rates. So, it is really hard to give precise guidance.

Martin Leitgeb, Goldman Sachs

Could I follow up on the question on negative rates? I believe the Bank of England recently explained they're prepared for negative rates. Is Barclays as of now prepared to implement such negative rates, or would it still take some time? Do you think the broader market is prepared or would it also take some time to be ready? Are there any other levers you would have outside of tiering and outside of what the

central banks might offer to offset the negative impact from negative rates? Could there be a scenario where we could actually see mortgage pricing going up in order to try to offset some of the impact via higher asset yields?

My second question, just in terms of Brexit and the implication for Barclays growth ambitions in a post-Brexit world. I think after the 2016 referendum, we are seeing Barclays losing market share in UK cards. Could there be a scenario that you would try again to increase that market share in cards or the other way around? Could there be a scenario where Barclays would see a larger pan European base or a larger pan European business as appealing?

Tushar Morzaria, Group Finance Director

I'll ask Jes to cover the questions relating to Brexit. On negative rates and operational readiness, we've had some experience in this already obviously with European rates already negative in our commercial banking business. That's something we're used to. So, operationally, we are ready. Where the rest of the industry is, I don't think I should be the person commenting on that. I'm sure everybody is doing what they need to do, but we're ready if necessary.

In terms of pricing, one of the bright spots has been mortgage margins have been very disciplined across the large lenders. Even though there's an abundance of liquidity out there. But I do think once you've got virtually no lever left on the liability side, I think most lenders will look at the asset side margin very closely to try and manage their NIM so, it's a fair point. Will it mean that lenders will be able to literally widen margins as rates go more negative? I think that's very hard to say. These are all untested and I think it really boils down to the precise situation you find yourself in.

Jes Staley, Group Chief Executive

Yes, before I get to Brexit, I think there's a real question as to the impact ultimately of negative interest rates. We're already close to zero and I think we have put the pedal down almost as hard as we can in terms of monetary policies to generate economic growth. There are so many consequences that are not really known if you go into the negative rate territory, but it cannot be seen as a real sign of confidence in an economy if you're running with negative interest rates. So, I think it's an instrument that they need to consider, but I think the Bank of England has thrown the right degree of questions about whether you'd want to go there.

Vis-à-vis Brexit, the cost revenue impact of Brexit has really been something that we've borne over the last three years. From increasing our staff all across Europe, to re-managing all of our risk models, all of our systems to take care of greater flow, relicensing every branch across Europe to be a branch of our bank in Ireland as opposed to London. That has been a fairly significant expense to be able to run this bank in Europe three months from now as we were doing three months past from now.

We are very committed to Europe. It's a very important market for us. Being awarded as one of the lead managers on this Euro bond, issued by the European Union, which is part of a €100 billion programme, very successfully, priced €17 billion on Monday, to all the corporate relationships we have across Europe. The [European] corporate bank [market] is a very important market for us. We are a clearer in Euros. That business is very important and providing that opportunity to our corporate clients. So, we are very much committed to our European franchise and we'll stay there. I talked earlier on about our card business in Germany, which is very profitable, and expanding the range of what we'll be doing there. We've had to deal with the reregulation of the banking industry over the last ten years and setting up a ringfence bank in the UK was extremely costly to do, dealing with our US business in the IHC and having to operate that was very costly. But I think what we've demonstrated is we will spend the money to

maintain our business footprint in the areas which are strategic for us. Clearly, Europe is a very important strategic priority for the bank.

Rob Noble, Deutsche Bank

I just wanted to round off the loan book discussion. Business Banking and corporate loans growth has been good in Q320 but slower. How much of it is on government guarantee schemes, and when they end does that book start running backwards? Does it run backwards but onto a higher yield because there's no more government guarantees?

Then secondly, it's just on the structural hedge. So, it has only increased £7 billion, but obviously there's massive deposit inflows and very highly liquid. I just want to know, has the strategy changed here? Are you not hedging all of the balances that are coming into you that you would normally hedge?

Tushar Morzaria, Group Finance Director

On the loans or Business Banking, the numbers here are really quite stark. We've had, I think, for our numbers it's approaching £10 billion now of bounce-back loans in our small business bank. That is a few years of lending in terms of overall production.

So, I don't think you'll have this, if you like, refinancing, because they're quite long-term now. Government have extended the term as well. So, I don't think you'll have the refinancing of loans into higher rates. So, yes, I'm not sure I think about some sort of refinancing uptick.

Your second question, [...] would you mind repeating that?

Rob Noble, Deutsche Bank

It's just the structural hedge balance. It has increased £7 billion in a quarter, but you've taken in masses of deposits. I was just wondering if you're hedging all of the balances that you would normally and obviously, your interest rate sensitivities increased in the quarter. So, I just want to know if there's any change in viewing the strategy.

Tushar Morzaria, Group Finance Director

We do look at the stickiness of the deposits coming in. We've definitely had a dramatic inflow of deposits. We haven't substantially resized the size of the structural hedge accordingly yet but we will continue to re-evaluate the stickiness and recalibrate as appropriate. It feels a bit early at the moment, I think. The deposit inflow has been in recent times, only a couple of quarters' worth. So, I think that's something we'll keep under review.

Fahed Kunwar, Redburn

Just a follow-up on BUK. I appreciate there have been a lot of questions on it but if I look at your Q320 exit rate verses 2021 consensus, it implies a 5% uptick. If I put that into the context of Business Banking, which is basically back at pre-COVID income levels, which feels unsustainable, but also your structural hedge, which is now annualising at £1.2 billion net of the floating leg, which on the average life would be a £200 million drag a year, how should we think of the 2021 BUK number verses the Q320 exit rate?

Then on the payment holidays, there has been a massive drop in payment holidays. I think it's down 70%. You only give the consumer balance this time of around I think £17 billion down to £4.5 billion. Last half, you gave £21.9 billion, so it's £5 billion being non-consumer balances on payment holidays. Could I just

ask, has the drop in those £5 billion of non-consumer payment holidays been of the same magnitude of the consumer balances drop, and have the roll-offs on those businesses and when customers come back on, have they paid as frequently and as well as the consumer ones have which you give in your presentation.

Tushar Morzaria, Group Finance Director

Let me do them in the reverse order. In terms of payment holidays, it has been a pretty decent experience on both the consumer side and away from the consumer side. I think you're probably referencing one of our slides that has the full roll down, slide 19. I think probably this may be, touch wood, fingers crossed and all the usual caveats, maybe the last time we talk about payment holidays. It's not really a credit issue for us I think at this stage. Unless that all changes of course. But I think that's broadly behind us.

In terms of top line for BUK, I won't give you a direct comment on consensus or how to think about your modelling. But I think you've got the right building blocks there. You've got a decent Business Bank performance. Some of that, of course, is very much driven by bounce-back loans and what have you.

Mortgage growth is good. I don't think you'll see card balances recover much. Having said that, I don't think you'll see them decline either. I think it's just a waiting time. Hopefully, they do start recovering but I think it will take a little bit of time. I do think you'll have the grinding effect of structural hedges unless the curve steepens. It's interesting how volatile the sterling curve has been in recent times.

We've had some quite steepness and then it flattens off again, so that's a bit of a hard one to know. But if it stays very, very low, there'll be a headwind grinding down into that. Mortgages, I think we've talked about with positive churn and net growth.

With that, thank you all very much.

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