

Barclays PLC FY 2020 Results

22 February 2021

Sell-side breakfast Q&A transcript (amended in places to improve accuracy and readability)**Tushar Morzaria, Group Finance Director**

Thank you all for joining us. I thought I'd begin with some introductory comments, then we'll go into Q&A.

On the line with me this morning is Anna Cross, who hopefully you've had a chance to speak to before, she joined me last time. She's the Deputy Group Finance Director here at Barclays. So, she'll add some comments as well as we go through the Q&A.

First and foremost, our numbers on the day for the fourth quarter were certainly a reasonable beat to consensus, really driven by decent CIB income, lower impairment charges and stronger capital and, of course, the announcement of the buy-back. It is the first time Barclays has done a buy-back, we think, for at least ten years.

We gave a positive outlook on RoTE improvement in 2021. We flagged that we would expect a materially lower impairment charge for 2021 as well. We were more tempered on the consumer income for 2021 and that is really driven by the uncertainty we have in how the pandemic plays out.

Obviously, there was a lot of focus on the last point, particularly on BUK NIM, which we understand, although I would remind people that this only affects roughly a quarter of the group income at Barclays, and a lot less than some of our domestically exposed peers.

As you have probably got used to, we don't give any quantitative comments on current trading for the CIB. Others will do that, I'm sure, as we go through the quarter and we'll leave that to others. But we did call out that we felt very optimistic on the franchise, and momentum in the sector was good. Even though there are some FX headwinds in there, I think we still feel pretty optimistic about that space.

We know the consensus still forecasts a double-digit step-down in CIB for the full year 2021, and we will see how that plays out. But from our comments you'll probably sense that we're more optimistic than that.

Turning to the Q4 highlights, Q4 PBT was £700 million. Again, a fair distance ahead of consensus. Better income, lower impairment and slightly better costs. It was also important for us that each business unit was profitable, as they were in the third quarter as well.

Income was a 3% beat to consensus, but down 7% year on year. That's obviously a lot driven by the consumer businesses. Impairment of about £500m was also down quite a bit on Q3, and we talked about

how we feel reasonably well-provided across our portfolio. Obviously that depends on the future economic path, but at the moment, we feel pretty confident with that.

Costs were up in the fourth quarter, as we guided to earlier, and I think most of you picked that up in your outlook for us. The bank levy is in there as well, which comes in the fourth quarter, which I know you're all aware of.

Capital of 15.1% was up 50 basis points in the quarter. We did highlight a number of headwinds in the ratios over the next year or so, which you'll see on our slides. Some of them are quite easy to model. Some are a little bit harder to know the exact amount, but hopefully the slide there was helpful. Having said that, two other points from us. One is we think the target capital range for us is 13% to 14%. We should be able to comfortably generate sufficient capital to distribute to shareholders, which is a priority to us, whilst staying well capitalised relative to that range.

We announced the return of capital cumulatively at 5p, which is a 1p dividend and a £700 million buy-back. Very much in line with the PRA's guardrails. It is a relatively high pay-out ratio on statutory earnings for 2021, of 57%.

We haven't made any comments on extrapolating that into subsequent years. I think the guardrails are quite unusual and temporary. Of course, last year was a very unusual year. We'll talk more about capital returns at the right time. It was important for us to stress that it is a priority for us to get capital into shareholders' hands.

Before I go into Q&A, it was important for us that it was another quarter of statutory profit, and we have remained profitable each quarter through the pandemic. We think the diversification has helped us there, and that level of statutory profit has allowed us to start returning capital to shareholders again this year.

We are managing the statutory profit line rather than in the past where we've looked at underlying or adjusting earnings. There may be from time to time large items that go through, but suffice to say, I think we're very much focused on the statutory outlook at the moment.

Fahed Kunwar, Redburn

I had a couple of questions. One was on the point you made on the CIB. I'm not looking for guidance on the next quarter, but it's interesting to think about the CIB. You're right, consensus has it down 10% year on year vs 2020. But it's up 9% versus 2019. So, how do you think about the market share gain positioning versus the unusually high volatility we saw in 2020, when we think about a more normalised level of CIB? Because 2020 was elevated. It is quite a big jump up from 2019 as well.

Question two was on the BUK NIM. Your hedge income was sitting at I think 1.2 net, 1.7 gross. The yields on that are 90bps and 64bps gross and net. These are still quite big, meaningful numbers. But the steepening yield curve now is about 50 BPS in the UK.

A pretty simple question actually. What level does that steepness have to get to before we can stop worrying about that hedge? Is it literally when it gets to 64bps essentially the hedge income is gone as a threat? Or is there something else working alongside that, that means actually we might have to see a bit more or a bit less than that to get rid of, or alleviate, that pressure from that hedge roll off? Thank you.

Tushar Morzaria, Group Finance Director

Thanks, Fahed. I'll take the CIB question and I'll ask Anna to answer the question around the UK margin, particularly around the structural hedge dynamics there.

On the CIB, I think there are a few comments I would make. You've seen the improvements we've had in market share. We feel very positive about that. They're real, they've been grinding up over a number of successive quarters and we have every expectation that we should be able to consolidate and build on those market share gains.

So, in that sense, we think the franchise is in very good shape. Certainly relative to the reset that we did a few years back, I think it has been making very steady progress.

In terms of the sector's outlook, our market share will be based on the sector's outlook, again we feel reasonably optimistic about that. I guess there are a few things there. One is, you still see reasonable large moves in asset prices. We've seen a big move in rates as you've just highlighted and Anna will come back to you on the UK NIM. Foreign exchange rates have moved; you've got equity markets and there is plenty of movement there.

The other point I would make is that primary markets are also very, very active. You can see that in Dealogic and other sector commentary. Primary is very active and that is correlated to the secondary market activity that you'll see. The amount of debt issuance that has been out there over the last two years, I think Jes has thrown out a number, the number of credit assets out there has increased 40% over the last two years. That does create flow, that does create churn and that does create trading volumes. So, we do think the dynamics are pretty good and we think that we'll be able to consolidate and indeed, even possibly improve on our market share over successive quarters.

Again, I would never judge this on one quarter at a time. I'd just look at the trailing average. We might do better or worse in the first quarter. We don't really know until we get there. But if you look at a four, five, six quarter trailing average, I think that's the way you should always judge these businesses.

The final comment I'll make on CIB, Fahed, is the fee side of the business is also important to us. Last year was an interesting year for us on the fee side of the business. We actually had for us the best income that we've ever had. Albeit, we probably lagged some of the strong American houses out there. Partly, that was because the type of wallet that was available wasn't suited towards our franchise. The areas that we're very strong in, and probably a bit overweight in, were very quiet. Like leverage finance, like acquisition financing, sponsor activity etc.

That feels quite different as we get into 2021. So, those were above activity levels in the primary market and possibly a market that's more suited to our franchise should help us there as well.

Anna Cross, Deputy Group Finance Director

If I understand your question, I think you said, what level does the swap curve need to get to, to get rid of the headwind on the hedge?

Fahed Kunwar, Redburn

Yes.

Anna Cross, Deputy Group Finance Director

I'm not going to comment on specific rates, but let me help you to understand how we think about it. We've got a total hedge of just under £190bn. It's £188bn. About three quarters of that sits in BUK. Typically, between a quarter and a fifth of it rolls every year and it's actually rolling every single month.

So, what matters is obviously not just what we're rolling onto, but what's rolling off as well. So, you need to consider both of the factors. The steepening of the curve and the rising of the curve is extremely helpful. But it doesn't snap to those numbers immediately. It's grinding out every single month.

You'd expect a rising or steepening curve to help us, but it does depend on that back book dynamic as well and it will take a while for it to grind through. So, net net, I would still expect a headwind for the current year.

Fahed Kunwar, Redburn

You're right, the 90bps and the 64bps that you give, or you can infer from your commentary in the annual report, is an averaging number. So, there will be much higher numbers than that in earlier years and then lower numbers in later years. The question was on the timing of that.

I'm assuming as the curve keeps steepening, you'll still face pressure in nearer years. But then in the later years, that pressure potentially turns around quite quickly. Is there any sense you can give us on timing of how that pressure turns around, considering how quickly the yield curve is steepening?

Anna Cross, Deputy Group Finance Director

Well, given the extent to which it has moved around over the last few months, it would be very difficult for us to give you that kind of guidance. It has moved quite significantly and given the uncertainty in the economy, we might expect it to continue to. It's quite difficult to capture that timing.

Tushar Morzaria, Group Finance Director

Anna is right. It's very hard to give you a precise number on that, but the other thing that may be of help to you is that the average duration of the hedges is roughly two and a half to three years.

That gives you a sense if you want to look back at the shape of the gross fixed received leg on each of those hedges, you'll be able to form a picture yourself, and get a sense as they grind into different fixed receipts, at what point they are accretive and dilutive. But Anna is right, definitely a headwind into 2021 and if the yield curve continues to steepen, at some point then there will definitely be a tailwind.

Jonathan Pierce, Numis

Firstly, on card balances in the UK in January. I don't think Gracechurch is out yet but Lloyds saw about a 6% fall in its credit card book in January. NewDay was down about 7%. Is that the sort of decline that you're seeing? So a continuation of a very steep drop-off in card balances that we saw in the fourth quarter?

I've got a second question on capital. Ordinarily, you've pointed to Q1 drag in normal years, related to RWA seasonality and a neutralisation of share awards of about 20 basis points. Is that what we're

probably going to see again in the first quarter? They weren't detailed on the slides that you put out last week. Thanks a lot.

Tushar Morzaria, Group Finance Director

So, capital, yes, you're right, we would expect as we normally would, I think virtually every year we step back in capital in the first quarter.

There are a couple of factors. One is Q4 tends to be a slightly lower print in RWAs because of the holiday period and the investment bank activities in the last week or two. Then in Q1, that reverses and it's typically the most active quarter. So, we will step backwards. Whether it's 20 basis points, it's hard to give too much guidance on that.

It ultimately will depend on the activity levels as we get towards the back-end of March. For example, if you have a lot of capital market activity in your syndication pipeline, that can consume RWAs. You sometimes also get the situation where the capital markets activity is very good, but the deals get executed just before quarter end, so sometimes that can be positive or negative for capital.

Broadly speaking, as some of these technical effects are called out, normal business levels, you'd expect us to go back as we typically do. To be a little bit more helpful, I'm not sure this quarter ought to be any different to a typical first quarter.

So, if you want to maybe look backwards and see how things bobbed around in the first quarter versus fourth quarter, this shouldn't be that different. It depends on activity levels whether it will be better or worse. But nonetheless, as is usually the case at Barclays, we tend to accrete capital from that point on.

I didn't say on the call and it's of itself not a big deal, but more of a statement of intent: in addition to the buy-back that we'll begin executing, we're cancelling the scrip for the full year dividend and replacing it with a DRIP, a dividend reinvestment plan.

The only point in making that comment is that our objective is to lower the share count, so we're not using this buyback to neutralise other share issuance or anything like that. It's more in the scheme of things, but hopefully it's a statement of intent so it may be of interest.

Jonathan Pierce, Numis

Actually, that was one of the points I was getting at. The share buy-back isn't obviously covering the ordinary neutralisation of share awards that you would do in Q1 anyway. But I was just wondering, under the PRA guard rails, you're allowed, are you, to do this buy-back and the dividend and also neutralise what are normally £300 or £400 million worth of shares in the first quarter of the year? That's being allowed by the PRA?

Tushar Morzaria, Group Finance Director

Yes, that's right. The buy-back itself will be a net reduction in share count in the way described.

Anna Cross, Deputy Group Finance Director

We would expect even in a normal year that card balances fall off between December and January simply because customers tend to pay off what they spent at Christmas.

I'll point you to slide 13 in the slides that Tushar used on the day. What we've seen through January and going into Q1 is obviously a reduction in spending. Specifically, non-discretionary spending, which is what you would tend to see migrate to cards.

That reduction in spending is across both debit and credit. It's about 15% or 16%. We would expect that to translate through to lower card balances. What we won't do is comment on specific balances as we go through the quarter, but I would expect that we'll see lower card balances in January and actually through Q1. That's rational customer behaviour. Firstly, we're in a lockdown and secondly the economic outlook is pretty uncertain.

We did see some increase in spending in Q4, but that was more from our transactors. They are actually paying off before they get through to the interest earning lending stage. We've seen a slight divergence in customer behaviour and we might expect to see that again as we come out of the next lockdown. So, I won't comment on specific numbers, but hopefully the 15% or 16% gives you some guidance.

Rohith Chandra-Rajan, Bank of America

I have a couple of questions please. The first one is just following up on your earlier comments on the CIB, Tushar. It sounds like you are a bit more optimistic than market expectations for the revenue pool being down around 20% or so, and also optimistic on a recovery in the fee business.

First to confirm that that was what you were saying earlier. Then on the Markets businesses, share is perhaps up a bit. Can you talk a little bit about additional business initiatives that could potentially grow the share in the Markets businesses?

Then secondly, on distributions. One of your peers was fairly clear on their plans on Friday, so I was just curious as to what's holding you back from providing more detail on medium-term distributions plans? To what degree is that future capital headwinds? There is obviously lots of uncertainty on procyclicality and IFRS 9. Or is there a regulatory constraint? I was surprised to hear you reference the reverse stress test as a particular risk when you talked about that on Thursday.

Tushar Morzaria, Group Finance Director

In terms of the confirmation on CIB, we do probably feel a bit more optimistic than others on the outlook for the sector and our share of that. We'll see if that's the correct prognosis or not, but I think you've heard other commentators talk about a strong start to the year, so we'll see how that pans out.

On your other point, I would look at [banking] fees and Markets together. As I say, fees for us, although it was a pretty decent year, it wasn't as strong as some of our peers. Although it was a record year for us, it wasn't as strong as some of our peers. I think the shape of the wallet may at the margin be a bit more helpful to us [going forward]. But we'll have to see if that's a multi-quarter thing as well.

In terms of business initiatives in Markets, there are a number we feel should be very additive. One of the things that we reduced as a result of the restructuring we did five or six years back now, was securitised products. We have restarted that probably two years back and that is on quite a nice growth trajectory at

the moment. There's a little bit of 'law of small numbers' when you go back two years, but when I look at it in 2020 and 2021, it starts becoming quite an interesting contributor.

The other area is our electronification activity in electronic trading. Again, that is something that we were probably behind many others on, on the back-end of when we did with the restructuring. But that again is coming through quite nicely now. You can see that in volumes market share and when you get electronic execution business, the halo effect of that can be quite good for us.

The other one I would probably put out there, which we saw really good progress on in 2020, and which, depending on how capital markets and M&A activity is in 2021, could also be quite interesting for us, is corporate equity derivatives. Which has also traditionally been a nice business for Barclays and again we're probably a bit behind where we'd like to be.

There are a number of things out there. The final one I'd probably put out there is on the prime side as well. I've always thought we were underweight prime relative to some of the best houses out there and that brings a lot more stability to [the] Markets revenue base. So, a number of things out there. Although we're optimistic on the market, I'll let you form your own judgement as to whether you feel the sector revenues are flat, down, sideways, whatever you may think. But I think we'd be certainly aiming to at least hold and solidify the market share gains we've got, and try to do a bit better where we can.

On distribution, if the impression was given that the reverse stress test is a concern... No, not at all. I just really wanted to make the point, and thanks for the opportunity if it was confusing, just as is normally the case, you need to go through a number of standard regulatory gates before you distribute anything. The real one is stress tests at the end of the year, rather than a reverse stress test, and that will be no different to prior years.

Rather than giving specific guidance each bank will have its own dynamics on what they're trying to achieve here. I think for us, I would say that we're focused on statutory profit and getting as much of that as we can into shareholders' hands in the most efficient way. Hopefully, full year 2020 will be a unique and unusual statement of that intent.

I think as we go through the year and we get greater visibility of, if the regulator is going back to business as normal which we'd like to think is the case, but they'll need to say that, and as we get a sense of how the pandemic plays out in terms of what statutory profits are, then we'll have the capital levels that should be able to support obviously a healthy distribution.

Edwards Firth, KBW

I just had two questions actually, both on cost, if that's all right. I guess the first question is related to the investment banking cost pool. Because one of the problems I've always got with Barclays is you're more optimistic on CIB revenues and you guide us to costs in that context. Obviously, we're all more conservative on CIB revenues, but we do put in your costs.

So, I'm just trying to get a sense, I assume you're happy with consensus, because you didn't say anything about it in terms of 2021 costs, but how flexible is that if the -11% [consensus CIB income] ends up being the right number? To what extent is that [in the] £13.5bn? Is that able to come down, or would you expect that to be reasonably robust?

The other question was investment spend. Because if I go back to 2019, I think you were targeting flat cost year on year, and then about Q3 you guided to a bit of additional investment spend that came in, so cost wouldn't be flat year on year and in the event they went up £100/150m.

I don't know what to do with that now though. Is that now just cost? You've given us no guidance as to what's going to happen to that. Is that ever going to come down? Is that now just [part of the] ordinary cost [base]? I don't know what we're getting from it. Are there any savings coming from that, or do we just assume that is now the new run-rate?

Tushar Morzaria, Group Finance Director

The cost dynamic for 2021 is quite different. Some of it is just the after-effects of 2020 still coming through. But in terms of where I think 2021 may come out, there are a number of things going there.

First of all, we did less cost actions during the year in 2020 than we would've normally done. You can see that we called out the cost actions that we could, but they were very much in the fourth quarter. We do cost actions every year. We don't typically isolate them out. We're trying to manage the total bottom-line rather than trying to give different targets and different components.

But the effect of that will mean that these actions will have a delayed effect. Now we'll take more actions, just as we did in 2019, and we did in 2020 and we'll do some more in 2021. Think of that as just a way of doing business.

The reason we take these cost actions is to create capacity to allow us to invest which was the other component to your question. Let me talk about the first point, which is the flexibility if income disappoints and then I'll come back a little bit more on the investment spend and structural [cost] spend.

If income does disappoint, you've seen in the CIB people were somewhat surprised that our costs didn't go up as much as they would've expected, given the strength of the top-line. I think people expected, aren't you going to have to accrue more variable compensation, and that's one of the reasons why your cost would go up typically in that strong income environment.

Whilst on a level that is true, in European framework with the bonus cap, unfortunately we have a higher level of fixed pay. So, whilst we don't need a catch up accrual, if you like, on the way up, we have less to un-accrue on the way down. It is going to be a more dampened effect. Whilst there is downward flex, it's not going to be as extreme as if we didn't have the bonus cap unfortunately.

Other things that we can do if we do disappoint on income, which is what we have done in previous years, is we would have to phase the investment programmes that we have. For example, in the CIB, if trading was to grind to a halt, we have a lot of interesting plans around securitised products, electronic trading, some of our prime businesses. We would just think about whether we want to incur that spend this year and slow or delay some of those projects.

So, whilst there is flex, you've seen that it is more modest flex. Different jurisdictions will have much more flexibility around comp. While we try to give ourselves as much flexibility as we can around comp, there is a finite amount we have because of the way the bonus cap works in the European regulation.

On the investment spend, this one is a little bit trickier. Because in the traditional banking business, we actually feel quite excited about some of the growth opportunities that we have that we laid out in 2019. But 2020 became a year where that wasn't a focus unfortunately.

Whether it's growing our mass affluent/wealth business, whether it's payments business, whether it's transactional banking services, we think we have some really interesting opportunities there. They are medium-term and we would like to invest there, but we've got obviously challenges in our consumer top-line. We're going to have to be careful how we phase them, because if we don't make those investments for the future, then we're letting those opportunities go by. But likewise, we need to manage near-term P&L so that's the trade-off that we're going to have to make.

Secondly, on the cost shape for 2021 at some point, as economies recover, we would expect consumer balances to start increasing again, asset balances. That typically comes with a J-curve. So, if our credit card balances start growing again, we will start marketing that business a lot more.

There is the usual J-curve, that you spend the money to get the account acquisition, and then the revenue comes in the following year. We've got to be a little bit careful about this J-curve.

Finally, I think we had a question on the call as well on FX. A strong Sterling is unhelpful for income, but it's helpful for cost, so, you put all of that into the round as well. That's why we were reluctant to give precise guidance, given 2021 has got all these uncertain dynamics.

We'd like to be in a position to invest and grow the consumer businesses where we can. We don't quite know exactly when the economies will start inflecting and we begin to see the ability to grow those balance, so we don't quite know how that J-curve will play out. That J-curve shape will balance how much we invest outside of natural growth there.

On CIB, although we're optimistic, we've got to be nimble there as well, in case our forecasts don't turn out as expected. Unfortunately, that probably doesn't give you what you're looking for, which is, I expect a cost range. But unfortunately, I won't be that precise. It hopefully gives you a sense of the dynamics. It's an unusual year in the sense that I can see headwinds to our cost base, but in some cases not good headwinds, in that we've had the ability to do less restructuring during 2020 that helps in 2021.

What is a better headwind is that if the economy does turn and we can start restocking our consumer assets, the J-curve and our ability to invest in growth areas. We're just going to have to be very careful how we manage it, because we can't let our cost look inappropriate relative to where we're trying to manage the P&L too.

Edwards Firth, KBW

On the basis that you haven't called it out particularly, I assume that means you're not unhappy with where consensus is looking.

Tushar Morzaria, Group Finance Director

I'll let you infer that. Usually if I'm unhappy with something, I'll make a point of it. Yes, that's a fair point.

Joseph Dickerson, Jefferies

If I can have two and a half questions, that would be great. The half question is, when do you expect to commence the buy-back? Secondly, two questions on Consumer. One, can you just discuss, as you sit here today and look at the US consumer strategy, any diversification opportunities outside of cards in the US, and how you're thinking about that?

Then secondly, you spoke to the J-curve as you restock consumer assets. I guess one element of the J-curve typically is provisioning and to the extent that you might be, repeat might be, over-provisioned in those products, if I think about risk-adjusted revenue, you might actually have a stock of provisions that you can actually grow into as opposed to having to add provisions as you grow. Am I misguided in that thinking? Any clarification there would be helpful.

Tushar Morzaria, Group Finance Director

The buy-back quite simply will begin in Q1. There are a few things going on actually, because we don't want to be issuing shares. To the earlier point when Jonathan asked this question, we want to reduce the share count. We will be having to go into the market to purchase shares for employee [awards] vesting. Then once that's done, we will begin our buy-back.

The reason we do it sequentially is that we've got to be careful under UK rules that we don't disturb the share price. So, we will begin in the first quarter, but [not] until we've completed the acquisition of shares for employee vesting, and then we'll begin the buy-back after that.

You'll actually see... I think the way the rules work... (although it has been so long since we've done one, we're all learning this for the first time here), but I think there's a daily RNS that comes out when we do go out and purchase shares that we end up cancelling. You'll see that quite publicly as we do that.

On the consumer diversification side, I think one of the things we've seen both in the UK and in the US is consumers are looking at unsecured credit using different products. So, the easy-pay concept in the US with 10/12 monthly instalments seems to be quite popular. Particularly with the younger generation, who tend to have a higher propensity to use that payment method rather than a traditional credit card method. We are looking very hard at that.

We've always had an idea in our mind on whether white labelling is something we should get more into as well and, perhaps more of a medium-term thing, but it is interesting to us, that, given the number of partnerships that we have, is there a way in which we can take those customers, take American Airlines for example, that may want a fixed loan rather than revolve on their credit card, and whether we could be the lender to them in that regard, to tie it up into a relationship with American Airlines and have a reward programme or something that sits alongside that as well.

That's something that actually does feel quite exciting to us, but it's more of a medium-term thing. Diversification is definitely the name of the game, and also actually diversification in terms of card partners as well. AARP, the American Retirees Fund, will come online this year. That's obviously not hospitality, leisure, entertainment, travel, which we're probably overweight on. We'll look to diversify into other different types of retail sectors where we can.

Joseph Dickerson, Jefferies

Anything on inorganic opportunities in the US?

Tushar Morzaria, Group Finance Director

In terms of inorganic, I think card portfolio acquisitions, like the American Retirees Fund as an example, [we] will always be open to doing things like that. We constantly have bids out there on various portfolios.

Beyond that, in terms of acquiring a business, I won't comment on that. Again, we're open-minded, but I wouldn't put that as a central pin to our strategy at the moment, but we always remain open-minded.

Anna Cross, Deputy Group Finance Director

On provisions, broadly you're going in the right direction. But there is a point of detail that I'll draw to your attention. Impairment is of course an output of the scale of the book and our expectation of the economy.

You will have seen us adjust our provisioning down in Q3 and Q4, as our balances have fallen, specifically in credit cards. We haven't really changed our expectations of the economy, but the book has shrunk and therefore the ECL in absolute terms has dropped.

Everything that we see now tells us that we are adequately covered, but if there's a change in the economic outlook, then of course we'll change that ECL balance accordingly. ... If the economy were to improve, ... as we add balances, there will be a rising ECL.

I'll draw your attention to that typically the number that changes when we adjust our expectations of the economy is our stage two provisioning, because that's where our un-defaulted heavier provisions are. As we're going through that J-curve, typically we'll be originating and taking a provision [also] for balances in stage one. They have slightly different quantum associated with them so I'd encourage you to think about that as you work through those mechanics.

Martin Leitgeb, Goldman Sachs

The first question is on mortgage strategy in the UK. I note the sharp increase in deposits and access deposits within Barclays UK. I was just wondering how you're thinking about that funding. Is that potentially an opportunity here to scale-up and accelerate growth in UK mortgages? Or is there reason to see those deposit increases are not being as sticky as the typical deposit base in the UK?

Secondly, one of the card [schemes] has increased interchange fees, or proposed to increase interchange fees in the UK. Is that a tailwind for Barclays UK and could you help us if so to quantify the potential tailwind?

Tushar Morzaria, Group Finance Director

I think mortgages are something we feel quite excited about. It has been a very good production environment for us for a number of months now, and we feel quite optimistic about that going into the rest of 2021.

Anna Cross, Deputy Group Finance Director

You're right, we have seen extraordinary growth in UK deposits. I guess they are just a reaction to customers feeling more uncertain about the economy, the extent to which they stay for longer we will

wait and see. But it certainly has been very strong across our retail and indeed our business banking and corporate franchise.

As to how we deploy that, we have seen very strong activity in mortgages through the back-end of Q3 and into Q4. That really made up for our lull in the mortgage market in Q2. The extent to which that continues and we can continue to print mortgages at the rate that we were printing in Q4, depends to a very large extent on customer demand.

I think about that in two ways. What we're seeing at the moment is what we believe to be a stamp duty driven increase in demand, where we're seeing an awful lot of movement in the residential market. That may dissipate depending on what happens to stamp duty and indeed what the Chancellor chooses to do. The extent to which we can continue to produce at this level, we are very pleased with this market and pleased with the marginal returns that we get, but the market or the pricing of that market may not stay at this level. We'll just have to wait and see.

There is also the re-mortgage market. Typically, we see that respond well when there is economic uncertainty. We'd expect even if the stamp duty driven effect steps back a bit, to see a fairly healthy re-mortgage market through the year, as customers try to secure their positions. Given current dynamics, we'll carry on, but we're very watchful of what happens if and when stamp duty changes.

On interchange fees I haven't heard that point about a change from that single provider. Interchange fees are not extensive in the UK, certainly nothing like they are in the US, so it's not a huge part of our income generation in UK cards.

Adam Terelak, Mediobanca

I wanted to follow up a little bit on your CIB comments in terms of some of the growth drivers there. You're talking about prime; you're talking about securitised products. Clearly, these are quite balance sheet intensive. That feels like a bit of a U-turn from the strategy a few years ago. I'm just wondering what the confidence is on that front, but also how much of that is accrual-based rather than just pure trading, and whether that's leading to some of your confidence in your CIB outlook, relative to consensus.

Secondly, on staging of loans in the wholesale book. Clearly, that spiked in Q2 and has been rolling off in stage two. I'm just trying to understand how that's being driven in your models and how that links to the post-model adjustment you've called out on the call.

Tushar Morzaria, Group Finance Director

The short answer to your question, is no, if your question is in growth in the balance sheet, are we going into a different strategy. Not really.

We did say, I think I'm going back probably three or four years, that we did want to put more leverage into the CIB, which we have done. We will operate within the leverage box that we've drawn for the CIB. We're not planning on changing that. The leverage ratio for the group, I think, if you look at year end rates for the last three or four years, perhaps even longer, it has been about 5% or better. So, the leverage ratio for the group level seems comfortable as we see it.

In terms of the income dynamics, prime definitely has more stability, more accrual business, and securitised products can also have that component. Securitised products has a trading aspect to it as

well, where you can trade the securities that we originate. It has a slightly more complicated dynamic, but I think your point about the recurrence of revenue is a fair point for both prime and securitised products.

Those houses that are very large in those businesses, at least as I see it, tend to have more stable revenues than those that are just reliant on trading, in that it is much more vulnerable to volume levels and offering a better balance across prime and securitised products, for example, just helps to move that out.

Anna Cross, Deputy Group Finance Director

On our wholesale book, what we saw in stage two is quite a lot of client activity in Q2, which then reversed in Q3 and Q4. What I mean by that is we saw quite a few draw downs, particularly on RCFs in Q2, which then paid back through Q3 and Q4. So, you've seen quite a movement of balances during that period.

Back to the previous answer, it is very much driven by our balances in wholesale. Having said that, we've been very focused on specific sectors, which are sectors that we spend more time in understanding and more time with the client since the COVID crisis began. You'll note from our disclosures that we made a specific adjustment in response to economic uncertainty in corporates and UK corporates in particular.

That was simply because as we looked at the end of December, we don't believe the economic consensus quite captured the impact of a second and third lockdown. It's simply because it is very difficult for consensus to operate in the current uncertain environment and therefore we concentrated one of those adjustments into our wholesale book. Specifically, into stage two, that's where you see it.

We have seen a falloff in stage two balances. In part, that is because of client behaviour, but at the same time we've taken a very hard look at some of those focused sectors and made a specific adjustment to push more provisioning into stage two, because of that uncertain outlook, driven by the second and third lockdowns in the UK. We're very focused on those stage two balances.

If you want to look at the selected sectors, they're on slide 38 of Tushar's presentation on the day.

Chris Cant, Autonomous

A couple on capital please from me. Could you give us a steer on what you expect the impact of Basel IV to be on your RWAs in 2023/2024? I think quite a lot of European banks are now providing that. One of your domestic peers is providing guidance on that.

Then on your capital target, your 13% to 14% range, on the call you talked about the range being necessary to absorb potential normalisation of countercyclical buffers. Is it reasonable to infer from that, if the countercyclical buffers go back to where you thought they were going to be or headed to in the case of the UK banks, ie 2% but never got there, that you'd be in the upper end of that range?

Tushar Morzaria, Group Finance Director

On Basel IV, I chuckle a little bit to myself because these things have been out there for so many years and have evolved. I think I might have said this in the past, on guidance on fundamental review of the trading book, I think it might have been 2015 or 2016, and here we are four or five years later and still yet to see that come through properly.

It still feels to me, especially with the PRA doing its various consultations and taking a look at how they may tweak the CRR for themselves, that it is one to come back to, hopefully soon.

To be fair to the PRA, I think they've had a strong influence on the CRR as was, and I don't expect enormous divergence. But nonetheless there may be tweaks they would make and we'll give guidance as we can. I just feel it's a bit early at the moment. Albeit 2023 feels like only two to three years away, but I think we'll give guidance when we can.

On your second question, I'm not sure I would go as far as to say we'd be anywhere [specific] within that target range. Whether we'd operate at the high end or the low end, we'll have to look at the circumstances there and then. Because we want to keep a decent distance to our MDA threshold and it's a function of countercyclical buffer, a function of Pillar 2A balances, and there'll be a PRA buffer framework in there as well.

I don't want to go as far as to say precisely where in that range we would feel comfortable. Suffice to say that this range gives us ample opportunity to ensure we're at the right capital level, whilst at the same time given the capital generation we expect from the company to be able to get capital to shareholders' hands in as meaningful a way as we can.

Chris Cant, Autonomous

On the Basel IV point, when you gave the more than 9% and more than 10% ROTE targets for 2019 and 2020, those were given explicitly excluding any potential impact of Basel IV. So, what's the status of your current return target? Is that also explicitly excluding any impact of Basel IV? Because I know it's a medium-term target. You wouldn't give a year on the medium-term cost: income target, but this seems to now be a target that exists beyond the point when Basel IV has an impact. So, what are you assuming within that return target, or is that again explicitly excluding any impact of Basel IV?

Tushar Morzaria, Group Finance Director

That 10% objective still feels the right objective in whatever capital paradigm Basel IV will ultimately present us with, with a target capital ratio as best as we can forecast at the moment between 13% and 14%.

Given enough lead time, I think we've seen this in the vast majority if not all banks, that they can usually absorb changes in the rule book when given plenty of time to adapt their business and deal with it in an appropriate way, without it necessarily directly impacting their returns objective. That's how we'll plan to do it at Barclays.

Over that timeframe, I think whatever comes into the rule book, assuming it has not been completely unexpected, we'll look to absorb it and drive our returns accordingly, as we were originally.

Jon Peace, Credit Suisse

Going back to Joe's questions around point of sales consumer finance that you highlighted as an opportunity. Do you have any volume figures of where you are now and where you think it can go? Is it something that you feel needs a strong merchant acquiring business, so you have a competitive advantage there, and do you see it cannibalising the cards business or do you think it could be materially incremental?

Tushar Morzaria, Group Finance Director

The UK is probably where we have got more experience. For example, I think most people know that we are the point of sale finance business partner behind Apple, eg. the iPhone 11 or 12, that was launched at the back end of last year now.

I think the way I'd characterise it is I'm not sure it's cannibalising cards. I think it's just a consumer preference, particularly in the younger cohort. They seem to be more comfortable purchasing things on a fixed instalment basis rather than drawing down a revolving balance on their credit card. I wouldn't oversimplify it. The data we have would suggest that younger cohorts like taking credit in that way, but will still use their credit card.

I'm not sure cannibalising is the right word. It's just another avenue. Perhaps those that don't want to use credit cards, maybe they wouldn't have used the credit card anyway and would have saved up to buy whatever gadget or something they're getting instead. Maybe this just accelerates potentially that purchase.

We've seen a bit of that in the US and of course we have a different footprint in the US. But we are seeing similar customer behaviour as well as we can see it. In terms of do you need a merchant acquiring platform, no, we don't think so. A good example of that would be where we've got tie-ups in Germany with Amazon. We've haven't got those tie-ups in Germany with Amazon because of merchant acquiring. Of course, it's different for us in Germany than it is in the UK. So it doesn't need to be linked to merchant acquiring. It will obviously be helpful in the UK that we have such a strong [merchant acquiring] presence there, but I don't think it's a prerequisite.

Fahed Kunwar, Redburn

The comments on the payments business are very interesting. Could I ask a couple of questions? One is obviously you're one of the biggest merchant acquirers in Europe. You always talked about investing in that business. Would you give us the revenue you get from that merchant acquiring business?

Then the second question on that was, how much of that business is you doing the acquiring for another fintech processor, and how much is you doing the full stack processing, i.e., the processing and the acquiring. To give a sense of what your position really is in that business, particularly in the UK.

Tushar Morzaria, Group Finance Director

They're good questions. I think there are a few of you on the call that would want more disclosure on our payments business and we haven't really given much. But it was one of the tools of our growth trajectory from the back end of 2019 onwards and 2020 side-tracked us a bit obviously.

I think we will be talking more about payments at the right time. It's going to become more and more an important part of Barclays' medium-term prospects. The short answer to your question is we haven't disclosed the revenue split.

Some analysts behind the scenes have had a go at working some of this out and unfortunately we don't make it easy for you, because our disclosures aren't direct. But those that have had a go have actually

done, we think, a reasonable job. You may not read other people's research but it might be helpful for you just to see what other people have tried to triangulate and you can do your own version of that.

In terms of acquiring and the back-end processes without doing the acquiring, ours is mostly where we're the acquirer as well. But again, I think payments is a much broader topic than just the narrow bit of payments from just merchant acquiring. There's a whole heap of ancillary connected services that we will talk about at the right time. It's something that is a focus internally in the company. Had we not had the situation of the COVID pandemic, then last year we would already have been talking more and more about that. So, hopefully more to come. Sorry I can't answer your question directly at the moment.

Thank you very much, everybody. We appreciate your time. Any feedback you have for us is always very welcome. Thank you very much.

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