

**Barclays PLC Q1 2021 Results**

30 April 2021

**Results call Q&A transcript (amended in places to improve accuracy and readability)****Joseph Dickerson, Jefferies**

My two questions are the following. Firstly, the £900m of incremental income growth over the next three years that you see as an opportunity from the payments business, do you feel that this is reflected in expectations for the company's revenues?

Then secondly, on the cost guide for this year, Q121 costs were up 10% year on year and some investors are querying whether that's the type of growth rate we can see for the full year. Are you committing to operating leverage here, given the 61% cost:income ratio versus the longer-run targets? Can we expect operating leverage for the full year? Thanks.

**Jes Staley, Group Chief Executive**

On the payments expectation, I think this is a little bit beyond what the expectations were. I should add that an important component is our expectation that payments will recover to the pre-pandemic level.

So, this is off of 2020 [income numbers]. But, no, the investment we've made in terms of our acquiring business, connectivity to our SME and our small corporates platform, the new products that we're rolling out, the point of sale financing, transactions that we're doing with Amazon; we're going forward with pretty robust double-digit growth expectations in important parts of our payment franchise. This is a new expectation that we're ... committed to.

In terms of costs, please note that our cost:income ratio for the CIB was [53]%, which is very low. Given that we generated a [greater than] 20% return on tangible equity for the IB, variable compensation is an important factor of the cost structure. Also, given that [the Group cost:income ratio was] 61% versus our target of 60%, we thought it was the right way to invest, given how strong the revenues were.

If revenues come up weaker, that's the advantage of having variable compensation, you can roll your costs back. I think it would be a mistake, if you take revenues down, to just project costs staying where they are. That would not be an accurate reflection of how we run the business.

**Jonathan Pierce, Numis**

Two questions. One on impairments, one on the hedge please. On impairments, £55m in Q1, you've talked before about a normal quarterly run-rate of £500m and I guess to the extent that stage three increases above that, if your current reserves are correct, they will offset that excess. So, £500m maybe is a quarterly number to think of still?

If you get £500m released from the MEVs in Q2, such that H1 as a whole is pretty close to zero, is that the way we should be thinking about it? So, we could be looking at a full year impairment charge in the order of £1bn?

Question two, on the hedge. Can I just clarify this? Your hedge income that you've quoted recently and historically is in relation to the SONIA curve, so that's what we should be looking at as the delta. Can you talk a little bit to what you're doing on the size of the hedge at the moment please?

**Tushar Morzaria, Group Finance Director**

In terms of impairment, I think the gist of your question is, what is the run-rate of the impairment, away from book ups and releases? Then you quoted pre-pandemic levels of about £500m and, ask where would it be now?

I think one thing I'd refer you to is that a lot of our impairment run-rate is obviously driven by our unsecured books. The unsecured books in terms of size are down a lot. They're down about £17bn if you add up the US and the UK. Then of course there's an argument to be made that obviously the quality of the books may feel quite different now having gone through a period of stress and reset.

I would be very surprised if our impairment run-rates were getting back to those levels any time soon. In some ways, it would be nice if they were, because that means our balances are growing extremely quickly. I think that's unlikely though. So, impairment run-rate, I'll be surprised if it gets anywhere near £500m in the timeframe you were indicating.

In terms of the hedge and the size, yes, it's something that we are keeping under review. We have a reasonable amount of "hedge capacity": so, additional deposits that we've received that we aren't necessarily hedging, that we're still considering transient in nature. I think there's certainly a case to be made that some of those may not be as transient as was first thought. We are looking at that. We have actually increased duration very slightly and we're also looking at that as well.

So, size and duration of the hedge are both under review. We actually have made some minor changes to our product hedging. These are slightly beneficial things, but relatively small in the scheme of things. But the overall structural hedge is something that we're considering.

As you know, we tend to make changes to our hedging approach infrequently, and try to keep them permanent in nature, rather than have them under active review. I think this is one of those situations where the case has been made that there's potentially a [permanent] change. That may prompt us to maybe increase the duration, or increase the size of the hedge. But more to come on that, if and when we do that.

**Jonathan Pierce, Numis**

Just to check, the income is a SONIA based income and not three months LIBOR based.

**Tushar Morzaria, Group Finance Director**

Yes, that's right. Everything's SONIA based now. Obviously, given the demise of Sterling LIBOR by the end of the year, we're fully SONIA.

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

I'd just like to come back to costs and payments actually, if that's okay. Just on the costs, I appreciate this is all under review, but could you give us a sense of the range of structural costs that you might be considering investing this year versus the £370m from last year.

Then on the variable comp, you flagged a £335m million increase in the quarter. I'm just curious about this phasing of the £1.5bn that was the full year charge last year. So, how much of the increase for the quarter is a reflection of phasing versus last year, versus just an increase in overall variable comp for the full year?

Then just on the payments, I was just wondering how the 15% growth rate that you seem to be targeting compares to recent performance. Jes mentioned that some of the £900m uplift is from market recovery. Is it right to think about the interchange and FX, about a third of that £900m, being the market [recovery] and the remaining £600m being enhanced capability? Thank you.

**Tushar Morzaria, Group Finance Director**

Why don't I kick-off on costs? I'll say a little bit on payments and then Jes will add some comments on that as well. On cost, in terms of real estate, it probably doesn't come as a surprise to anybody that one of the lasting effects of the pandemic will be differences in the ways of working, and as a consequence of that, we may have too much general office space.

We don't want to pre-empt that review. It's something we've got to be very thoughtful about and whatever changes we make need to be long-lasting in nature, rather than just adapting to the current conditions. We're trying to have a view of this over a number of years.

But I think there's a case to make that we probably have more real estate than we need. Depending on where we come out, for excess real estate, we will need to charge off future lease payments in the course of this year, and that'll probably be a one-time charge. That'll be a non-recurring charge obviously, and will have run-rate benefits beginning immediately in effect, because you're saving on future lease payments.

That's an accounting matter. So, a one-time charge and an immediate run-rate benefit. I can't quantify it yet, of course. As you'd appreciate, if I knew it, then we'd be booking it in the first quarter. We just haven't completed the review. But think of it as general office space. We have a lot of general office space in expensive locations like London, so that's what we're looking at hard.

In terms of variable cost, in terms of the shape of the accrual, we don't try and be too clever about this. We accrue alongside the performance. We had a really good performance in Q1 [this year]; an 18% return in the CIB and felt that the compensation accrual was reflective of that.

As Jes mentioned, if the second quarter/third quarter is just as strong, we'd expect variable compensation to be sized appropriately and that's a good thing. If it's not as strong, obviously it won't be.

**Jes Staley, Group Chief Executive**

One thing that's very important when you model this is what drives variable compensation is more profitability than revenue. So, don't take a fixed percentage of revenue. When we have an IB, whose profits are greater than 20% of capital, you're going to accrue more variable compensation. If that profitability drops to 12%, you'll feel it in the accrual of variable compensation. So, don't connect it [directly] to revenue. Connect it to profitability and you'll get closer to what we're thinking, and what I think the street is putting in.

**Tushar Morzaria, Group Finance Director**

On payments, as Jes mentioned, there are two components. I think you're trying to get to how much is potentially just a market recovery. Just payments volumes increasing and activity levels increasing, and how much of the £900m is new.

We haven't broken that down specifically, but I would say, and Jes may want to add some more comments on this, don't underestimate the newer components of this. When we talk about next generation, e-commerce, unified payments, connectivity from our acquiring platform and our gateways now to small businesses, the use of connecting consumers and those small businesses together on our next generation e-commerce platform, that stuff's pretty new.

So, it is both. I know you'd like us to give an exact number, which is very difficult to do with these things, because they get quite connected over time. But don't underestimate the new stuff. Jes, anything else you want to say?

**Jes Staley, Group Chief Executive**

Just that the volume of payments that we're transacting through e-commerce is growing north of 30%. We think there's always a belief that high 20%, low 30% growth potential should be here for quite a while for us.

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

Could I just come back very briefly, just on the variable comp? The comments you made around comp relative to profitability, was that the same through last year as well? So, Q120 last year would've reflected high impairments, for example.

**Tushar Morzaria, Group Finance Director**

Yes, absolutely. One of the questions, if you recall, last year that I was certainly asked was, are we accruing enough variable comp? The response at the time was, we're indexing it to the CIB that made just a bit under 10% return. So, we paid for the performance that's generated and we do that each quarter. So, yes, last year was no different. It would've tracked the performance by quarter.

**Alvaro Serrano, Morgan Stanley**

Good morning. I have two questions. One on CIB revenues and the other on provisions. On the CIB, obviously it was well-flagged that you had a very tough comp with FICC, while equities and banking fees had a very strong quarter, and you managed to keep everything broadly stable [overall].

As we think about the next few quarters, is there anything that you can point at around what kind of seasonality you might expect this year in FICC? Given the pipeline on the rest of the businesses, obviously it is going to be increasingly difficult to keep revenues flat, but I just wanted to get an idea of how the pipeline looks on seasonality. If you still think now the consensus is looking for -7% year on year in CIB revenues, do you think that's a fair balance? Or do you still think, like in Q420, that you can do better?

On provisions, stage two balances are coming down in corporate, but you haven't seen the releases of some of your peers. Can we make the inference that that's due to the size in your corporate lending book? I mean the size of the client and others are more SME focused. Any reason why you haven't released maybe more?

As we look forward on top of the £500m macro potential releases, any reason why we shouldn't think that, of the £1.2bn management overlays, at least a big chunk of that cannot be released as well?

**Jes Staley, Group Chief Executive**

How about I take the first question and Tushar will take the second one? Obviously, we're a little disappointed on the FICC number. It was against a very strong comp last year. If you look at where we are versus 2019, we're up 40% in the first quarter versus Q1 19 in FICC.

Equity has benefited. As Tushar has mentioned in his comment, we have a new equity capital markets team that we brought in a little over a year ago, with Kristin DeClark and Taylor Wright. Our participation in the primary side of equity underwriting has taken a real step forward.

That translates into better revenues in your secondary activity in equities, and being up 70% year over year. I think there is some seasonality. Portfolio managers on the buy side, tend to use the first quarter to reset their portfolios and reset their hedges, and we benefit as an intermediary with that reset.

I can't predict second, third or fourth quarter, but fundamentally the capital markets continue to grow. Corporate credit outstanding globally is up 40% in the last two years alone. We have a very big footprint in the credit markets and secondary markets, so we're going to grow, reflecting the fact that the overall capital markets are growing as well.

So, that's why we like the business. I think there is a degree of seasonality. We're all trying to capture market share and I think over the last three years we've done pretty well at Barclays. But let's see how the next couple of quarters play out.

**Tushar Morzaria, Group Finance Director**

On provisions, in terms of releases, and you called out particularly stage two and wholesale, I think the way I'd explain this is we've tried to be prudent in the way we think about reserves. We were quick to increase them and improve our coverage ratios quite materially and very quickly. We'll be prudent in how we release them.

To be helpful, we've given out that sensitivity to take a current snap of macroeconomic variables. If you just run them through the models in an isolated fashion, everything else being equal, there's a £500m release... At the second quarter, we'll make that judgement there.

In terms of the additional adjustments that we're carrying, the £1.2bn of post-model adjustments, they were there in place specifically to deal with the fact that the models just weren't designed to take into account the fiscal interventions that were going on both in the United States and in the UK.

I think we'll get a good sense of how successful or not successful they've been and what effects they will have. So that might be something we can continue to assess quarter, by quarter, by quarter. We'll keep you updated as we go along.

But we feel very prudently provided, very decent coverage ratios. Credit looks very benign and the lead indicators are probably pointing in the right direction. We'll keep you posted over the course of the year.

**Guy Stebbings, Exane BNP Paribas**

I've got a couple. Firstly, I was just hoping to come back to costs again. Just to contextualise the guidance today and what it means as we look beyond 2021. I appreciate you don't want to be too specific on the

structural actions, but you have said that should largely be a one-time with run-rate savings thereafter - so, a sizeable year over year reduction presumably in 2022 there.

Interested on the J curve investment in the consumer business. How much you see that being greater in 2021 over 2022, or that should continue into next year. We can then make our minds up on CIB performance and associated accrual. But just taking those factors in the round, it feels like costs should be down year over year in 2022, absent some very strong income performances. Is that a fair way to think about it?

Then the second question was just on debt capital structure. I know you've got some pretty expensive Tier 2 instruments maturing in May and June this year, and you've already been active issuing some Tier 2 at considerably tighter spreads. So, as those roll-off late in Q221, should we assume some pretty sizeable run-rate savings into the second half? It looks like it could be in excess of £100m, so it would just be helpful for any thoughts around that and whether that would sit within [Barclays] International. Thank you.

**Tushar Morzaria, Group Finance Director**

I think you're trying to get to, what does 2022 costs look like versus 2021. I think the real estate charge, we wouldn't expect that to be a recurring charge. That's why we're trying to be very thoughtful about it and make broad decisions that will stand the test of time. You're right to point out, and it's worth emphasising, whatever charge we take this year will result in run-rate savings into the following years.

The other variable item in this year's cost rate, obviously variable compensation. That'll be driven, as we mentioned, by the returns in the CIB. 18% [CIB] returns and 15% Group returns. Then a [53]% cost:income ratio in the CIB will feel, in our view, very appropriate. Obviously, next year will be next year.

I'm not going to give precise cost guidance, but if you take the assumption that the real estate charges are non-recurring and there is a run-rate benefit, obviously that's a fairly big swing year on year that would be beneficial. That's probably the right way to think about it.

The J curve is also a very positive thing. In some ways, the steeper the J curve, the better for us. It means the economies are opening up sooner and quicker, and account openings, new customer acquisition and card utilisation is happening sooner and quicker.

I would expect the J curve to begin this year. That's a good thing because that's going to result in stronger revenues next year. I would expect it to continue into next year. For example, and we've got the Gap Inc. portfolio that should come online next year.

We've got the American Retirees' Fund, which is coming on this year. That'll have a J curve associated with it. The Gap Inc. portfolio also takes us into private label store cards. That's a new product set for us. We're also steadily rolling out a point of sale finance product set with our partners in the United States. So, these are all good investments that will lead to income in next year and the years beyond.

So, the momentum of that J curve is important to us. ...Obviously the variable comp will be what it will be and the real estate charges will be very transitory.

Your second question on capital structure, we obviously took note of the research which you did on that, Guy, which we thought was pretty good. The only thing I'd say is I think although you're right directionally, of course the benefit in terms of replacing legacy capital instruments will be dependent on what interest rates and spreads prevail at the time.

You've also got to bear in mind that we are regular issuers. We want to be predictable and straightforward with our debt investors. We don't try and be too clever in timing with the market. We try to be predictable so folks aren't surprised by what we're issuing and when we're issuing. But generally, instruments that are still in issue from yesteryear and will be replaced by more efficient spreads, that is of course a benefit.

**Chris Cant, Autonomous**

On revenues, could I ask what the equivalent payments revenue figure was in 2019? So, what was the £1.7bn billion in 2019 please? Of that £1.7bn, how much of that is sat within CC&P? I'm just conscious that the number is spread across the division. So, how much of that is in CC&P specifically? I'm guessing it is the majority.

Then on costs, you've talked quite a bit about investment, but obviously the slide shows variable compensation as the bigger driver of the higher cost number. Could you just help us square the circle a bit on costs? Is there a step up in investment spending still to come later this year? Just a point of clarification, if we pretend for a moment that the real estate review is not taking place this year, do you still think the costs are higher than 2020, prior to that restructuring item? I think the phrasing of your remarks suggested that, but I just wanted to clarify.

**Tushar Morzaria, Group Finance Director**

On where the income on the payment activity is, I'll let you have a look at this. You may not have got to it. It's on slide 35 in our appendix.

We felt that it would be helpful to try to model where we are. So, you can see a segment split across CC&P, UK, and CIB of all of the items that Jes called out. So, have a look at that, I think that should give you the answer to what you're looking for, but if you've got any follow-ups, of course we'll always be here to answer that.

In terms of the first part of that, specifically, what were the 2019 revenues? We haven't disclosed that. I go back to the earlier question that was said. How much is recovery and how much of it is new revenues? I would just say, and this is a qualitative answer rather than a numeric answer, don't underestimate the quantum of new revenues.

There is obviously a snap-back. You can see for example merchant acquiring type volumes. One of the things I'd stress about the newness of some of these revenues, although we are the largest merchant acquirer in the UK by volume, it's not necessarily the highest margin business that we have. We are probably over-represented, for example, with large corporations and indeed the government, in fact, HMRC.

I think as we go into the SME space deeper and into mid-market space deeper, you get a very different profitability level and indeed income dynamic. So, don't underestimate the new revenues that'll come online as part of that £900m.

Costs - the only thing I would say on costs is [later this year, we expect] the J curve, particularly in consumer credit, to begin to happen, just in the same way it was partially switched off and the business was almost frozen last year as there was very little activity.

So, do expect the J curve to start materialising over the course of this year. There is a very high correlation: when you spend money in our customer acquisition and card utilisation, you get balance growth. So, we're looking forward to that J curve coming online.

Having said that, I don't want to pre-empt what the real estate review is, but the reason we'll be calling out and giving people a heads-up is, to the extent that if we conclude we have too much real estate, that could be a meaningful item, that will be a non-recurring amount. Variable comp will be for others to decide. We've given you the framework of how we think about it.

So, hopefully that gives you enough context just to get a sense of what the moving parts are without precisely answering your question.

**Chris Cant, Autonomous**

Obviously, if you're able to disclose the full year 2020 payments revenues, I imagine you have a figure for full year 2019 and that would help us out quite a bit in terms of understanding the split.

If you don't want to give that figure, could I invite you to comment on April's CIB trends please? I know you've not historically commented on that, but the CIB is now generating 70% plus of pre-provision profitability at a Group level, so I think the historic argument that you gave, that your performance is not just about the CIB and trading doesn't feel quite so valid anymore.

**Tushar Morzaria, Group Finance Director**

I'll decline to give a trading update on April. What I'd say though, to try and be helpful, we said in our outlook that we feel very good about our CIB positioning. The deal pipeline on the capital markets activity is really strong. Announced M&A that you've seen, that will result in fees later in the year. I think we're 6<sup>th</sup> in globally announced M&A, which is a really strong position for us from where we were last year. There'll be other commentary out there [on trading activity levels], but we feel pretty good with the CIB current positioning and perhaps we should leave it at that.

**Omar Keenan, Credit Suisse**

I've got a related question on costs and payments in Barclays UK. So just thinking about the elements of the £900m that will be new, rather than the recovery, I just wondered what your thinking was on the marginal cost:income ratios, either in OPEX or fee expense, on those numbers could be, just to help us think about what the feed through to the bottom line is.

And then just on a related question, I know you don't want to make a comment on what savings in Barclays UK costs can be made on real estate, but just, looking at the 68% cost: income ratio last year, I was just intrigued as to what your thoughts could be around what proportion of that really is potentially a cost problem, or just temporarily lower revenues, or perhaps, even, market share that might be a little bit below what you would consider your natural position to be. Thank you.

**Jes Staley, Group Chief Executive**

I'll do the payments and then pass it to Tushar for the costs. On the payments base, we have a traditional, analogue, cash-based payments business which, as you can imagine, with cash payment volumes dropping by 40%, the cost:income ratio of that business is very much under pressure.

On the flip side, we're building our e-commerce capability where it's growing at, as I said, about north of 30%. Particularly for mid corporates and small business, the profitability being demonstrated by players in that space is extremely high. So it wouldn't be a surprise that we are making the investments to move into the e-commerce space, to digitally connect the on-boarding of the small business client with the on-boarding of a merchant acquiring client.

All one has to do is look at the valuations in the payments space to realise that this is a worthwhile endeavour for the bank. We think we have an installed client base, and franchise, which gives us an advantage to compete in that space. We have a way to go to get the technology platforms stack at Barclays, given that we have traditional businesses that we have to support. It's going to be a lot of work.

Essentially what we're putting forth today is: payments is a very important part of banking and a very important part of finance. The market is giving e-commerce payments platforms just extraordinary valuations, as I'm sure you know. And that's not lost on us. So we will be giving more clarity as time goes by to everyone.

**Tushar Morzaria, Group Finance Director**

On BUK it is a function of both, with such a sharp income decline, particularly with unsecured balances. We talked about 20%+ reduction in interest-earning balances. It's definitely a function of both income and costs. Income ought to recover over time. We feel pretty good about the UK economy.

We're very constructive on it. We think the foundations are there for a very decent snap-back in customer activity, and hopefully credit card balances following thereafter, and are investing for that. At the same time, it's a business that's becoming, perhaps, less physical and more digital, and that gives us opportunities to improve our cost line in BUK as well. That's a work in progress.

Obviously when you've got, and I suppose all the banks are in a similar position, when you're running a physical estate as well as a digital estate, then it gets a little bit more complicated. But the trend is very clear. Fewer branches, much more digital transacting, less cash. All of that is beneficial to the cost line. But it really is a function of both.

**Ed Firth, KBW**

Two questions. The first one is, and I'm sorry to keep going back on these costs, but I guess there are two parts to my question. One is, can you give us some sort of scale of what your property expenditure is today, so that at least we can get some sort of sense as to what the scaling of those numbers could be.

And I guess related to that, can I just bring you back to Chris' question? Because I get that there's uncertainty about the restructuring of property but if we leave that at one side and park it, I don't really understand why you can't tell us, would the costs still be up without that? Because that's just like business-as-usual investment spend.

And so as of today, consensus has costs going down. So we're talking about quite a sizeable shift here in guidance from what you were talking about at the full year. So I think we do need to have some idea what it would be, excluding that property [cost].

And then my second question is just on CC&P. If I look at pre-provision profits there, they're now just over £200m, which is actually less than what a normalised provision charge was pre the crisis. So I guess volumes are down a lot, so you would expect that to come down as well. But I'm just trying to get a sense of, I hear about the J curve, but are the costs at the current run rate where they will be, and you'll now be looking to fill that out with revenue? Or, would we actually be looking to see some costs coming out of that business as well?

**Tushar Morzaria, Group Finance Director**

Why don't I have a go at both of them? On the overall Group cost shape, so let's put real estate to one side. You can probably look at our Q121 costs, we've given you for the delta year-on-year what our driver

was. That can be your jumping-off point. You can take your own view of where variable compensation is. We'll let you decide that, based on your views on the performance of, principally there's the CIB.

And, of course, there's no real estate restructuring in there. I would expect, as I say, the J-curve in the consumer businesses to begin over the course of the year. Now these aren't giant numbers. We don't get carried away. I just want to make sure that people do understand, though, that is an investment that's appropriate. Offset against which, we have an efficiency programme that's constantly running. So it gives you the building blocks of how to think about it.

The other final thing I'd say is we try and give you everything [all in]. So we don't give you underlying, and before this, and after that. We talk about reported costs, and we own our returns on a statutory basis, and will own our returns on a statutory basis. So even whatever real estate charge, where we can take it, whatever quantum it is, when we talk to you about how well we think we've performed, and where our earnings per share is, it will still be on a statutory basis. So that's why we're cautious in trying to say before this, and before that. But hopefully, that gives you the building blocks.

**Ed Firth, KBW**

Any quantum in terms of your total annual expenditure on real estate?

**Tushar Morzaria, Group Finance Director**

We haven't called that out anywhere, so I'm loathe to give it out on a call like this. All I would say is, though, I don't think there are any numbers I can refer you to, but we have an awful lot of square footage in central London. We have two large buildings, for example, just in Canary Wharf. I'm in Canary Wharf today, and there aren't a lot of people here. So you can get a sense that we have quite a lot of real estate that we need to look at. But I can't throw any numbers out.

On CC&P and the costs there, that's where you will see the J curve. This has got a little bit harder to answer, because when the American Retirees fund comes on, when the Gap Inc. portfolio comes on, those will have costs associated with them; of course, they'll have revenues associated with them too. So will JetBlue, and all the airlines as they come back, with flying back on, and account opening and origination.

But, having said that, we think that it's one of the businesses we feel most excited about, because it's genuine growth. We're going to be adding brand new balances into that, brand new partners into that business, brand new products into that business, in store cards as well as our point-of-sale financing, using partners, not using the Barclays brand, but using our partner's brand, which is quite a unique product offering.

And I think we would expect returns to be really good in that business. Credit is incredibly benign, and I think that will take a while; we're at the beginning of a consumer credit cycle. That's usually a good time for these businesses to be coming on. So you will expect costs to go up as we add more partners and more products, but you'd expect revenues to go up alongside it.

And there's obviously a slight mismatch there because we invest in period one to get revenues in period two. But that will come back into a clear view reasonably soon.

**Rob Noble, Deutsche Bank**

Can I just ask about UK NIM: the guidance obviously has increased a little bit? As we get to the end of 2021, is the hedge next year still a negative drag? And you said that you hoped that unsecured balances start to grow towards the end of the year. So presumably that's a positive benefit as well, for 2022?

And mortgage pricing is still attractive, albeit mortgages are lower NIM than unsecured. Do they stay where they are? Should we expect NIM to start going up in 2022, should there be an inflection point at some point?

**Tushar Morzaria, Group Finance Director**

There would be. The real biggest downward pressure on NIM this year is the combination of unsecured balances decreasing, as you've seen in the UK business in Q121, and the downward pressure from the structural hedge. Now, the structural hedge, we've talked about earlier, we may resize that. We'll keep you posted on that. The curve, obviously, has steepened, again, a little bit in recent times, so that's all positive.

If anything, I think while those five-year swap rates are still lower than they were five years ago, they're becoming less low, so it's less of a headwind. And I would expect to see unsecured balances growing next year. So we ought to see the low point, it depends on yield curves, and various other things like that. But, everything being equal, with unsecured balances growing. We ought to hit the low point this year.

Mortgages is really good. We've been really pleased, we're at record mortgage balances. In fact, the other thing that we're really quite pleased about is that our share of redemptions, actually, has declined. So in other words, people are staying on the Barclays platform longer than they were previously.

And our churn margin: so when you do go off an existing product, it's actually accretive to NIM, rather than, in times gone by, when we've been cannibalising our own NIM. So the mortgage business is actually really good, margins have held up well. We'll see how that goes. Obviously the stamp duty relief will expire in June, and that may normalise things a little bit. But at the moment, it's really, really good dynamics in that business.

**Robin Down, HSBC**

A couple, if I might. First, apologies for this, but back to the subject of variable comp, if I look at the first half of last year, it looked like you were in the first half accruing about £360/370m a quarter. So the £335m that you're adding this quarter is not quite doubling the amount of variable comp that seems to be being put aside.

If I look at the profitability of the CIB business, we've got a return of 17.9%, up from 12.5%. If I look at the comp as a percentage of PBT-pre comp, it's going from 22% to 28%. So it's just a question of, is this you, in effect, saying you under-accrued last year? Are you seeing some sort of upward pressure on wages coming through here? Is this coming to a new level? And also, if we see provision releases in the second quarter, on the back of the macro changes, is that going to go into the comp pool as well?

And then the second question is just really on a point of clarification. I think, coming back to Guy's question, the legacy funding costs or the excess funding costs on the legacy instrument is taken in the head office. So does the £300m negative income go as of 2021? I assume you're making an assumption there about retiring and replacing legacy instruments in H221. Am I correct in that? Thanks.

**Jes Staley, Group Chief Executive**

Why don't I take the first question and Tushar, take the second one. When we look at our hiring and our retention of MDs and directors in our CIB platform, we're quite comfortable where we are and what we've seen, over the last year, so I think we feel that compensation levels were competitive. Obviously, there are other reasons, not just comp, as to why people are part of our team.

I would point you to look at, as I'm sure you have, the comp accruals for many of the US banks, and, indeed, some of the European banks in the first quarter. And we need to reflect that as well. We do include the impairment impact on the profitability of the business. And, obviously, as you've seen in the first quarter of last year, we took a pretty significant impairment charge which impacted the accrual of variable compensation.

We had virtually no impairment charge here, and so that would have an impact as well. With a fundamentally much more profitable business in the first quarter of this year, even with the increase in the variable accrual, I think that's the appropriate measure.

**Tushar Morzaria, Group Finance Director**

On your second question, around legacy funding, there is some in head office, you'll notice that we actually retired some legacy funding in, I think it was Q420, where we took a charge to redeem that, or we put a tender offer out. So there is some in head office. And a lot of it is at the operating company level, rather than at the holding company level. But hopefully it gives you some sense of the geography.

**Fahed Kunwar, Redburn**

Thanks for taking my questions. They're on the payments business and thank you for the interesting disclosure. I was interested in your comments around moving from large corporates to SMEs. And I appreciate the take rate is larger for SMEs than large corporates. But the margin is much bigger on large corporate businesses versus SMEs.

If you look at your payments peers, people like Stripe and Square, they use SMEs as an entry point and move towards large corporates. So why are you going the opposite direction? Is it that you don't think that you can compete with these players? They're on higher valuations, and actually, SME players are on lower valuations. So that would be question one.

And on the margin itself, and I appreciate you're not going to give the number, but I reckon your margin is probably a third of what your peers are making right now. I've never really got to the bottom of why that is. Is it, ultimately, your ability to scale on your existing systems? And, on that basis, what's the incremental margin you make on that payments business? Because most of the time, incremental margins grow because people haven't got scale, but have got the tech.

But you've got the scale, and, potentially, haven't got the tech. So how should we think about incremental margins and, ultimately, how profitability is affected by the growth in your payments business?

And the last question is on interchange and FX fees. It's the biggest component of your payments business. It's also where the most pressure is. And if you talk to all the IDMs and the Stablecoins, you look at Transferwise, you look at Revolut, FX is under extreme pressure. Have you factored that competitive pressure into your 12% growth on the interchange and FX? Thank you.

**Jes Staley, Group Chief Executive**

To the interchange and FX, the answer to that is, yes. Again, as you said, I think our scale is a tremendous competitive pressure. I think we've already made quite a few advances in digitising: particularly the FX business is hardwired into our corporate banking portal. So we feel quite competitive in preserving margins in that space.

I don't want to get too specific, but the more you drive the e-commerce, the more you'll improve your profit margins, whether it's large corporate or small businesses. I do think there is a sweet spot somewhere in the middle that says, turnover of company from £1-15m. But the real thing is to have a digital platform that's easy to use, that is easy to adapt and to offer new services on, that's integrated with the overall platform.

We have all the components from the acquiring business, to the corporate clients, to the consumer clients, to increase significantly the profitability of this business. And, again, just like you pointed out, it's not lost on us the profitability of a Square or a Stripe. And we have a lot of investing to do, and the payoff will be significant. And that's why we want to begin to bring this up to this group. And obviously we'll be talking a lot more about it during the course of the year and going forward.

**Fahed Kunwar, Redburn**

On the incremental margin, if I look at your peers, their incremental margins are 10-15% points higher than their existing margins. Is that a similar trend for you?

**Jes Staley, Group Chief Executive**

The incremental margins would be better than historical margins for sure, because the relative percentage of e-commerce versus cash is going to change significantly over the next couple of years.

**Martin Leitgeb, Goldman Sachs**

Could I have just have two, one on cards and one on the investment bank? And on cards, in particular in the UK, I was just wondering if anything has changed in terms of the outlook along Q4 result. I think the indication was that balances could bounce back in the UK towards the end level of 2020. Just given the progress we have seen in the UK in terms of opening the economy, vaccinations, is there scope for this to change, and this to be potentially higher?

And, maybe, even more broader on UK cards, I was just wondering how we should think about progression going forward, so heading into 2022, 2023 in terms of growth, and in terms of your ambition to reclaim some of the market share. I'm just trying to gauge how quickly you could recover the 30% attrition we have seen in UK card balances since the beginning of 2020?

And secondly, on the investment bank, I just wanted to ask on the scope for market share gains in Equities and Fixed Income going forward. And obviously strong progress, over the last few years, in both. And I was just wondering how we should think about the progression here going forward, given that the restructuring of some of the peers is progressing well, and probably getting smaller going forward.

And on the other hand, obviously, recent news flow, how that affects the opportunities here for Barclays.

### **Tushar Morzaria, Group Finance Director**

I'll get Jes to talk about market share in the CIB and the recent dynamics that you referred to. On the card balances, I think the key thing here is interest-earning balances. So you've got to drill into not just the balance but those that are interest-earning. I would think that they ought to start growing, but it will be, my sense is, towards the back end of this year. We'll see. Could be pleasantly surprised. It could be sooner. We're trying to be cautious and prudent in whenever we give guidance. But we think towards the back of the year.

Beyond that, I think 2022 I feel more optimistic about. I think once the growth begins, and you're underpinned by a strong-performing economy and low unemployment levels, and decent economic activity, I would expect card balances to recover nicely.

And the only question we have is [when will be the] low point of NIM, maybe in 2021? I would have thought that's a reasonable chance, aided and abetted, of course, if the yield curve steepness continues, or even improves. So hopefully that helps.

### **Jes Staley, Group Chief Executive**

[On the CIB] I would say you're right, we've gained important market share over the last couple of years. I think there are two things happening that we're mindful of, as we look at our business. And, remember, we stated five years ago that we were committed to all our asset classes, and to remaining a bulge bracket firm.

There clearly has been capacity coming out of the markets. A number of European banks over the last number of years that have decided to exit certain asset classes, and some of them are still in the process of doing that. The flipside is, everyone has witnessed the profitability contribution of the IBs in 2020 and the first quarter of this year, and I wouldn't be surprised if a lot of those people started to roll back the reductions that they were in the midst of taking.

So, given the level of profitability experienced by this sector, I think the competition's going to come back.

### **Charmsol Yoon, Lazard AM**

Two questions: one, payments, what's the net income contribution at the moment. And, secondly, on cost, I'll just tweak Guy's question. So next year, Group cost ex-CIB, will the cost go down or up? I don't expect you to give us the exact numbers, but just directionally, you should go down, just to confirm.

### **Tushar Morzaria, Group Finance Director**

Yes, so why don't I have a go at them, Charmsol. Payments and net income. We haven't given a profitability number, so I won't throw it on this call. But what I will say is, a measure that we look at very closely in how well we're doing is EBITDA, and that's probably the measure that's used by peers, and they're obviously very public about that.

We would expect our EBITDA to be significant over this period. This isn't a break-even business or anything like that. It is a meaningfully profitable business. I think it's sort of a bit funny, as a bank the EBTIDA's a slightly odd measure, given that it doesn't really make sense in the context of banks, does it? I'm a little bit cautious about putting it out there, but maybe at the right time we'll talk about that. But it is a profitable business already, and will become meaningfully more profitable over the time.

Costs, on a reported costs basis, the real estate charge is probably the big swing factor here. That will be what it will be when we've concluded the review. We don't expect that, obviously, to be a charge the following year, and there will be a run rate benefit, I suppose, associated with it. So think of that as, definitely a tailwind into 2022 versus 2021 on reported costs.

Thanks for your time, and hopefully get a chance to speak to all of you as we have meetings beyond this one. With that, I'll close this meeting. Thank you.

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