

Barclays PLC Q1 2020 Results

4 May 2021

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

I'm joined here by Anna Cross, who hopefully many of you are getting familiar with. She joined us at the last sell-side breakfast. She's the Deputy Group Finance Director here at Barclays, and we have the IR Team on the call as well. [...]

Just a few reminders of the points that we tried to get across on Friday. We view the Q1 print as a decent set of results. We had a record quarterly profit before tax of £2.4bn, earnings per share of 9.9p, and a 14.7% RoTE, which we think is at the top end of our European peer range. Each business delivered a double-digit return for the quarter.

Income of £5.9bn was down 6% year-on-year. Reasonable performance in the CIB, which was flat year-on-year with record performances in Equities and Banking. Equities indeed are up 78% [in dollar terms], with growth across many products; banking fees were up 46% in dollar terms with decent growth in ECM.

FICC was down 35% [in sterling terms]. A tough comp from the close to 100% increase in income year-on-year this time last year, but also a relative product mix where we were underweight in some things like securitised products, which drove probably our strength in Q1 last year and less strength in Q1 this year. Having said that, what was very important to us is that the CIB delivered a 17.9% return, despite obviously a higher comp accrual.

On the consumer businesses, Q1 was still a fairly difficult quarter in terms of top line, characterised in the UK by lockdown and economies still not in full swing. Nonetheless, income in BUK and CC&P were down 8% and 22% respectively. Impairment of £55m was materially down on Q4, with only a 6bps loan loss rate on lower unsecured balances, lower wholesale exposures, and very benign credit conditions, as those numbers suggest.

Costs of £3.6bn were 10% higher due to a fairly significant step up in the comp accrual. About £335m versus the prior year, I guess in line with peers that have significant sized CIBs, but also very much reflecting the return of the CIB and the Group.

Just to remind you, this time last year, Q120 was quite an unusual time with the start of the pandemic. By the time we were closing the books, we were in the beginning of a full-blown lockdown. You'll recall that the CIB performance this time last year was indeed very strong, so there were certainly questions around what it meant for the rest of the year.

You'll also recall that the regulator was restricting distributions in comp accruals from material risk-takers, and we were also very mindful of the returns, both at the divisional level and at the Group level, in setting our compensation accruals.

So, just to let you know that you may expect the cost phasing in a year like this, which is a very different year to last year, where things are perhaps clearing and improving, rather than things getting more unclear. You've seen in the past that investment banks tend to accrue more comp alongside seasonally stronger income, which tends to happen in the earlier part of the year, but we'll see how that goes.

The outlook still points to a meaningful returns improvement in 2021. You can see that in Q1, but we do feel pretty good about how the rest of the year should shape up. We are cautious on the pace of consumer income recovery, however, it is very much driven by when we expect to see unsecured balances start recovering.

Nevertheless, we have updated our BUK NIM guidance to a 240 to 250bps range. We are benefiting from the steepening of the curve and decent mortgage margins. We did mention that [we are reviewing the size and duration of] the structural hedge that we have made some very minor tweaks. We don't often change this. We try to stick to a relatively automatic way of rolling the hedge, but I think given the very significant changes in our deposit base and nature of the balance sheet, we're at a point where I think it's worthy of a review. We'll update you accordingly as and when we make any changes.

We signalled costs to be up year-on-year [for FY21]. That's really a signal of confidence to invest in growth opportunities and also does include a potential real estate charge-off, which we talked about on the [results] call. Just to remind you, to the extent we do charge-off general office space or other forms of real estate, it ought to be a one-time charge and there'd be a run-rate benefit accruing immediately thereafter.

[On] Impairment, we did give a sensitivity that were we to have updated our macro-economic variables (MEVs) to the most recent, we would've had a c.£0.5 bn lower charge than we booked. To remind you, we also have £1.2bn of management adjustments on the balance sheet. The run rate going forward will really be a function of the growth in unsecured lending. We think that'll take a little bit of time to recover.

I know we had a question on the call about whether we could see impairments at £500m, where we were pre-pandemic? It feels for me that it will take quite a bit of time to get there on a run-rate basis. Were we to get there, it'll either be a function of two things. Either our unsecured books are growing very nicely and then obviously we would expect income to outstrip impairment growth, or there's some very very significant deterioration in [the] credit environment, which we don't see at the moment, but obviously we'll keep you posted on that.

We also talked about income growth and our ambition for Payments in 2023. It's a low capital-intensive fee-driven business, so good diversification for us and very accretive to our return objective of greater than 10% RoTe at the Group level. The growth in income is a mix of recovery and new growth. It is skewed much more towards new growth rather than recovery.

Finally, on capital, [the CET1 ratio was] 14.6% for the quarter, well above our target range [of 13-14%]. There are some more headwinds to come. You saw them in Q1 and we've got some more coming, possibly in Q2, particularly with the reversal of the software benefit that we saw in Q4.

We've also put in a placeholder for dividend accruals at 3p per share for the full year. This was a tricky one for us. I wouldn't read too much into that. The regulatory rules in CRR do force you to put some form of foreseeable dividend accrual in. It's very difficult to know what to put in there, because we haven't really made a determination of the scale and mix of distribution. We'll probably talk more about that further on, but unfortunately there is very low information content in that 3p. It's not really guiding towards that being the dividend for the year at all.

Benjamin Toms, RBC

Firstly, on credit card partnerships in the US. When you are looking at these partnerships, what are the criteria you used to evaluate such deals? How are you thinking about sector weightings going forward?

Then secondly, there was an announcement in March from the regulator on Buy Now, Pay Later companies. There's obviously a lot of competition in this space. With the regulators and the non-bank players, do you see headwinds or tailwinds going forward from here?

Tushar Morzaria, Group Finance Director

I'll just make a couple of points and then hand over to Anna. In terms of credit card partnerships, you'll have seen the news around Gap. That is very significant for us. It takes us into a different type of retailer out of the hospitality/leisure/travel space, but it also takes us into a new product set, which Anna can talk about.

On Buy Now, Pay Later, it's good for us that there's a level playing field in terms of unsecured credit for those that haven't had the typical form of bank regulation around these kinds of products. We think of this as being a tailwind.

Anna Cross, Deputy Group Finance Director

In terms of US partnerships, we are very happy with the partnerships that we have thus far, but opportunities like Gap and AARP do give us the opportunity to diversify both into private label, but also away from the travel vertical, where we've been traditionally very strong. We are focused on that diversification.

In terms of specific brands, we can't comment on deal-by-deal, but we're very focused on partnering with high-quality brands. The reason that's important is because that allows both us and the partner to deliver compelling value to the customer. That really matters in the US market, which is dominated by rewards, as you probably know. We see consistently that drives higher engagement, higher spend, really good loyalty and lower attrition, so expect to see us very focused on brands.

What that does mean is that each individual opportunity is very competitive, so we are very focused on the economics. Whilst it's competitive, you will also see us walk away where we feel the economics are not compelling, and we've done that in the past. Hopefully that gives you an idea of the kinds of things we look for in the US.

In terms of [point of sale instalment financing within] Payments, Tushar is absolutely right. It does feel like there are some regulatory interventions on their way. We operate in this area very much in line with where we operate elsewhere in our consumer lending portfolio, so with consistent approaches on customer affordability and credit, and making sure that at the point of sale the cost of that credit is very clear. As Tushar said, I would also expect this to be a tailwind for us at this point in time.

Tushar Morzaria, Group Finance Director

Yes, so pretty optimistic about Buy Now, Pay Later. Things like affordability tests and ensuring your customer is getting the right product - all of these things we're very used to. I think the unregulated space may take some time to adapt to that, so yes, very much agree with Anna's points.

Rohith Chandra-Rajan, Bank of America

The first one is on BUK NIM. You talked about mortgage pricing, consumer credit growth, or currently lack thereof, and then also the structural hedge. The range that you've given, 240 to 250bps, is quite wide. I was wondering if you could help us understand what you would need to be at the top or the bottom of that 240 to 250bps range?

Then the second question, in terms of tax charge, could you help us quantify the impact of the corporation tax change for this year? How does that link to the potential changes to the bank levy?

Anna Cross, Deputy Group Finance Director

In terms of BUK NIM, the way we're thinking about it at the moment and included within the outlook, you should expect us to have thought about mortgage momentum tailing-off beyond the stamp duty holiday. We had originally assumed that would end [in March], but obviously given the extension, it has meant that the residential purchase market has been very buoyant. That's high volumes and actually very attractive margins, but we would expect that to peter out and actually probably be replaced by a more buoyant re-mortgage market. That tends to be at lower loan-to-value and therefore a slightly lower margin.

[Secondly,] we would expect customer spending activity in unsecured lending to pick up. We're starting to see some signs of economic recovery in spending for the UK, but our expectation is that will take some time to work through to interest earning lending. The reason for that is customers are being extremely rational through the pandemic. They've built very large liability balances, and if you look at the growth in liabilities in BUK, it's about £25bn in the personal space. It's going to take some time and we will probably need to see a pick-up in non-discretionary large items, so things like travel, for those IELs to pick-up. That's what really matters for NIM.

Having said that, we should see good leading indicators in terms of balance growth overall as we progress through the year, so maybe we see a pick-up in IELs at the back-end of this year.

Then the third factor is obviously rates in the structural hedge. We're not factoring in any reduction or increase in base rates in that forecast outlook. We've shown you in the [slide] deck the construct in terms of rate on that structural hedge. Broadly, a fifth of it rolls every year. In the current year, [we are still] facing a headwind from the fact that what's rolling on is at a lower rate than what's rolling off, so expect that to continue to be a headwind. We continue to review the duration and the scale of that hedge, but I wouldn't expect that numbers to change materially in the short-term. Those are probably the three big component parts.

To the second question, we have to re-value our balance sheet position in terms of tax [when the corporation tax rate goes up]. That means that we will be re-valuing our deferred tax assets upwards. We haven't commented on the scale of that and there's obviously a capital impact as well, because [some] of those deferred tax assets impact capital. We would expect that to occur when the increase in tax is substantively enacted, so that could be in Q2 or Q3.

As you'll have noted in the Budget statement, there was a comment on the banking surcharge. That's the additional percentage we pay over and above, if you like, the corporation tax rate that every other

business in the UK pays. It has been suggested that it will be reviewed. If that were the case, we would expect that to be substantively enacted in 2022, and therefore you may see a re-valuation of those deferred tax assets.

The same of course is true of the US, although I'd expect the timing to be much later. Exactly the same there, although we wouldn't see the snap-back there in terms of surcharge, but we would see a re-valuation of deferred tax assets in response to any changes in tax that the Biden administration puts in place.

That is unconnected with the bank levy, although we did note that in the Budget statement that there was no modification of the guidance we'd already been given on the bank levy. We haven't changed our view of that levy.

Tushar Morzaria, Group Finance Director

On the bank levy, it's fair to assume that we would expect a step down in the levy this year, given the Chancellor hasn't played around with the original schedule of the step down in the rate.

To Anna's point on BUK NIM, I'd encourage everyone to look at balances and NIM almost side by side. Obviously, the balances are at record levels for us, so when you do your models around the projected income, I just urge you to look at the two together, rather than just on the NIM side.

The big wild card for us is on unsecured. If that grows quicker, then that starts moving the needle very quickly, and we're not expecting that until the back-end of the year. Others have talked more optimistically about that and we hope they're right, because it will be very helpful for us as well.

Omar Keenan, Credit Suisse

Could I just ask for a little bit more colour on the CIB performance costs? I understand that last year was a very unusual year. We probably saw net operating income up a couple of hundred million, and despite that, the performance costs were unchanged.

If we look at CIB net operating income this year, it could be high hundreds of millions up on the back of lower impairments. Could you perhaps help us think about what the right base is for performance costs this year, so we can model it going forward and think about what might've been a catch-up from last year?

A quick second question on the Gap portfolio. It wasn't entirely clear if the back book was moving as well. Could you perhaps give us a bit more colour there?

Tushar Morzaria, Group Finance Director

On the CIB, we are very much focused on returns and obviously last year returns are impacted by impairment. There is never a single formula we use, and we have to pay for performance. We have to be competitive in the marketplace, and we have to keep the right balance between employees and shareholders.

Generally speaking, the primary lens we use to get that right is returns. When I look at the full year last year, we had a lot of questions on whether we were accruing enough comp in the CIB last year. You may recall that one of my responses to that was yes, we think we got it right [...] just looking at what's happened this year in terms of staffing levels. Also ultimately, we did index it to the beat that the CIB

generated at slightly less than 10% return after the performance costs that we accrued, so that balance works for us.

When we go back to Q1 last year, it was a really tricky quarter for us for two reasons. One, the remainder of the year was incredibly uncertain. The PRA was putting a lot of public statements out there on capital and compensation accrued out of capital, particularly around material risk takers. The dividend got cancelled through the PRA's actions as well, and indeed our returns were going down. All of that was factored into the compensation accrual we booked in Q1, even though the top line was incredibly strong.

The same thing for this year, except more of that top line is flowing straight down to the bottom line. That's why you've seen a much more significant pick-up in compensation accrual year-on-year. Maybe to help you think about how to model this, I would say the primary lens would be the divisional and the Group returns.

We're in a different place this year than we were last year. We'll see what this year's like, this isn't a forecast, but traditionally the first and second quarter tend to be the best quarters in typical IB type businesses. You would typically accrue more comp against those stronger quarters than later in the year, but we'll see how this year goes.

On the Gap portfolio, the way the deal works is we have an agreement to take, if you like, the front book. The reason this deal's structured this way is Synchrony, the current partners of Gap, they need to receive a termination notice from Gap themselves by the Gap Board. That's a public statement, which they did in the second week of April or something like that, through their line when the Gap deal became public.

What that then triggers is a pricing discussion on the transfer of the back book, which is expected to happen. There are all sorts of safeguards in place around that transition to ensure that there's no, if you like, difficulty in transferring the back book from one partner to another if done at a fair market price. There are various clauses in the way the deal is structured to take independent arbitration if ourselves and Synchrony can't agree on a fair market price. I guess you can never take anything as guaranteed, but we're reasonably confident that the book absolutely will transfer over, and if it was transferred, it will obviously transfer at a fair market price.

For modelling purposes, it's probably very reasonable for you to assume that it does come over and that will result in growth in balances. As it comes over, it will close some time in the early part of 2022. As we get further on in the process, I could probably give you the month in which it will close, so you can model it thereafter.

Chris Cant, Autonomous

You talked about the record performance in Equities and IBD. Are you expecting that sort of level of performance to be sustainable going forward? Just noting that they were both giving you exceptional quarters in 1Q.

On the CIB cost: income ratio, Jes at Q320 said that if revenues remained in line with 2020, he would not expect the CIB cost: income ratio to change much from the nine-month level, which if I remember was about 53% for the nine months. We're seeing the cost income ratio higher in Q121, so could I just invite you to talk about that? Do you think that commentary is still correct? And if it isn't, where do you think the new normal CIB cost: income ratio is?

In terms of the historical data we have, it was 70%+. I think the consensus is looking for something around 60% as a go-forward level for the CIB cost: income ratio, so any colour there would be helpful.

Tushar Morzaria, Group Finance Director

I'll ask Anna to talk about the top line in the CIB. It's terrific to see record quarters. It's quite unusual to have consecutive record quarters, but we will find out when we get there. On CIB cost: income ratio, I think we're around about 53% for this quarter. That's a pretty efficient level.

Bridging back to Jes' comments part way through last year, it's a difficult call to be very precise on. As I say, going back to the earlier question, the returns lens is the most important lens. We have a range in which the cost: income ratio for the CIB makes sense.

For the Group, we think less than 60% makes sense and should be consistent with a little better than 10% return. But the return is the driving magnetic force, if you like, and the cost income ratio is as much an output rather than just an input. We'd like to think that the CIB efficiency ratio is pretty good, relative to our peers, and shows at least positive operating leverage when income levels are very strong, which hopefully you've seen for this quarter. I'm not minded to give a very precise range, because as I say, returns are probably the primary lens, but we do endeavour to try and make the CIB operating jaws as efficient as possible.

Anna Cross, Deputy Group Finance Director

In terms of Equities, we're really happy with the result. It's an area where it's been traditionally smaller in our portfolio than the fixed income side, so it's an important part of our diversification within Markets. We wouldn't expect overall [Markets revenue wallet] to be as high as FY20, because markets have somewhat normalised and we're seeing lower volatility, or we would expect to see lower volatility.

Having said that, we have seen gains across all businesses within Equities, and I think the investments that we did in prime played out very well. That has an element of annuity type business around it. We've also seen strong client activity on the equity derivative side. We see that as working in tandem with the step forward we've named in ECM on the banking side, so it's very difficult to be precise.

I think we expect to see lower volatility. That will obviously impact our volume. However, within that, we have made strides forward in those two aspects. In terms of IBD, again I'd call out ECM. It's an area where we have traditionally been less strong in, and we've seen our market share move forward in SPACs and also notably in technology. That feels good, where we've been investing in both of those areas. Having said that, there's still more to go.

There are still areas where we are underweight, for example like in healthcare, where you should see us continue to invest. We hope to make more progress there. In terms of advisory, the volumes in Q1 were extraordinary and we've done relatively well. The volume shares will continue into Q2 and the pipeline continuing into Q2 is also pretty strong.

Tushar Morzaria, Group Finance Director

The deal pipeline, as Anna mentioned, is pretty strong. We did pretty well in market share and announced M&A, obviously those will depend on when the deals close. On the Equities side, it's a function of volumes going through the market as well as associated bid offer spreads, which is as much a function of the volatility of those markets.

Conditions feel pretty reasonable, but it's a brave person to forecast sequential records. I think we feel pretty good about the CIB outlook, and particularly those two, which are traditionally areas where we've been less strong compared to our fixed income core. We're pretty optimistic about the future.

Chris Cant, Autonomous

Could I just ask one point of clarification? Did I hear correctly that you expect the full year Equities number to be below 2020?

Tushar Morzaria, Group Finance Director

No, I wouldn't take that as a forecast. It's so hard to forecast these things with a high degree of certainty. If you'd have asked me at Q320 what would Q121 look like, I wouldn't have forecasted it would be at record levels, so I'd be reluctant to give you that narrow a forecast. What I would say is that we're much more diversified as a Sales and Trading function than we've ever been.

I think the prime business has been really helpful for us, the halo effect of the annuity-like revenues. If market conditions are right for a strong performance in Equities, then hopefully you'll see our ability to capture at least our fair share, and maybe even more than our fair share, but I wouldn't give you a revenue forecast on this.

Rob Noble, Deutsche Bank

Just a few on the new Payments disclosure. In BUK, you've shown us £800m in Payments, but total non-interest income in BUK is £1.1bn. What's the remaining £300m made up of? What trends are you seeing in that part?

Then in CC&P, similarly there was £1.2bn of non-interest income, so is the balance the Private Bank in non-interest income? How are the trends looking there? Lastly, the same in the CIB. What you're showing in the Payments business, is that coming through the Transaction Banking line?

Tushar Morzaria, Group Finance Director

In BUK, we've given a list of things that are included in what we consider Payments, and by inference everything that isn't there would be excluded. For example, fees in BUK that we don't consider payments related include our wealth business, to the extent that there are any fees and surcharges for late payment or other forms of banking services that aren't related to the list that we've got there.

In the corporate wholesale space, the wholesale payment fee would be any fees associated with a payment in the Transaction Banking space. We would consider them as Payments. Corporate payments is actually one of the things that we're really excited about. It's very hard for a non-bank competitor to compete when you can link up payment acceptance, making payments and the fees that you charge for that.

We've given a segment split, which is seen on slide 35, that gives you the segment split of everything we've called out. Hopefully there's enough there to go on. If you want to spend a bit more time just to see if you've got the geography [and segmentation] right, I'd probably suggest you spend some time with IR, who can bridge it back to all the various other things we may have said.

Rob Noble, Deutsche Bank

The 2019 number on Payments, which you haven't given, can you give us an idea of how much it was? I presume it was down, but correct me if I'm wrong?

Tushar Morzaria, Group Finance Director

Yes, it's down. I would think that the [majority of the] £900m growth is new sources of revenue, not just a snap back on the basis of reverting back to 2019 levels. Think of the £900m as mainly additive revenues, not just a snap back. There is a component that is definitely recovery, but the majority is non-recovery, it's new stuff.

Andrew Coombs, Citi

Firstly, just to come back to the cost point. You talked about 2021 being above 2020. On the structural cost end, particularly the review of the real estate footprint, where do you expect those costs to predominantly come through? Is that Head Office or UK or CIB? Anything more you can shed in terms of where that cost is coming through? And obviously a timeframe of that during the year would be helpful.

Secondly, just a couple of specific questions on Business Banking. You talked at length about mortgages and cards. When I look at Business Banking, after a pretty strong set of revenues in Q320 and Q420, you pared back again to a more normal run rate in Q121. You also saw your loan balances coming back in that segment, presumably because some of the government-backed lending was repaid. I'm interested in your comments on the outlook for Business Banking?

Tushar Morzaria, Group Finance Director

I'll ask Anna to talk a bit more about the Business Banking top line and then I'll cover costs. I think there's a high chance that we will complete our review during the second quarter, and it'll be reflected in the second quarter numbers. The review is around general office space.

For those of you who will be familiar with Canary Wharf, for example, we have two large buildings in Canary Wharf. Our headquarter building at 1 Churchill Place and the Investment Bank at 5 North Colonnade. As you can imagine, for those of you who actually come into the Wharf these days, it's pretty empty around there. It turns out we may have more than we need, we shall see. We also have general office space in more provincial towns and cities as well. We have a fairly large footprint, so that will be included in the review.

Branches is something that we've constantly been chipping away at, and I think the pandemic has perhaps galvanised an even further push into forms of digital interaction rather than physical interaction. In terms of the segment split, we haven't concluded on that. We'll be driven by correct IFRS accounting around that, but whatever we do, we'll call it out. It'll be clear to you what, if anything, we are writing off in terms of the future lease payments on real estate and what benefit it will accrue thereafter.

Anna Cross, Deputy Group Finance Director

The themes on Business Banking are very similar to the ones that we've discussed on Retail Banking actually. The first thing I'd call out is the impact of the lower rate environment. If you think about the fact that it's a very liability-led business, the rate environment and particularly the structural hedge outlook impact Business Banking just as it does Retail Banking.

On the lending side, clearly we've seen both BBLS and CBILS come to an end. There is the more recent launch of the recovery loan scheme from April 2021 onwards. It's too early to comment on that, but what I would say is that again you'd expect to see the same factors playing out as we would in UK cards. Beyond BBLS and CBILS, there hasn't been a huge appetite to borrow at this point in time. We might expect that alongside economic recovery, you may see a pick-up in that, and that would be at a higher margin than the existing BBLS and CBILS activity. That remains pretty uncertain at this point in time, so we wouldn't guide you to any particular outlook there.

I'd just think about it in the same way as you do the rest of Retail Banking. Think about the impact of the structural hedge and the economy re-emerging back into more normal borrowing patterns, but that's all that's going on there.

Gary Greenwood, Shore Capital

Firstly on the loan: deposit ratio, which is obviously very low at the moment, given the deposit inflows. I'm guessing you would expect that to increase over time, as people start spending money and balances start to grow again on the lending side. Do you think about the business in terms of what a normalised loan: deposit ratio might look like? Is that a metric that you manage towards or is it just effectively an outcome of the flows on either side of the balance sheet?

Then slightly linked to that, on the comments you made previously around spending and the pick-up in balances on the unsecured side being delayed, to what extent do you think these are the same customers? That is, the people who have built up the deposit balances are the same people who would normally borrow on their credit cards?

Tushar Morzaria, Group Finance Director

On the loan: deposit ratio, Anna will give you a bit more insight into this, but we would like to see more of our liabilities put into productive assets if we can. So I don't think there's any target that we've got in mind there. We are fully open in terms of lending to the right people. I just think there's a lack of demand, particularly on the unsecured side.

Obviously mortgages are going great and we're at record levels. In fact, we had record net increase in mortgages in Q1, record overall balances and the churn margin is positive. Everything is looking good in the mortgage business, but unsecured is going to be lacking a little bit. There's no real target in mind there. We would definitely like to grow our balance sheet if we can.

Anna Cross, Deputy Group Finance Director

We've never had an explicit [loan: deposit ratio] target in mind. It's just a reflection of the way customers have responded in the pandemic, and how we benefit from that in terms of the strong retail and corporate franchises we have. It's an output rather than a conscious input.

In terms of ongoing activity, it's difficult to tell whether they are exactly the same customers. Clearly we don't have a complete overlap between our credit card book and our current account book. What I would say is that we have seen customers across the breadth of our risk spread, if you like, pay down, so they have been entirely rational. It's not just the more affluent customers that have done so. That's a thing in the UK and the US, so that's a bit of background for you.

The only other thing I would say is that even when customers do start spending, it obviously takes a while for that to reach interest earning lending. The customer obviously has a period during which they could continue to pay down, but if they choose to hold on to those balances, it normally takes 60 days. So even if we see an uptick in spending activity, it can take a while to filter through into interest earning lending, just because of the way that the customer repayment systems work. It's not just about them paying away their savings.

Fahed Kunwar, Redburn

I just have a couple of follow-ups on the Payments business. On the [results] call, I asked questions about incremental margins and why you're going from large corporates towards SMEs. The answer you'd given

was the e-commerce shift. If I look at your e-commerce shift, it's gone from 47-48% in Q419 to just above 50% at the moment. How much of that is just the fact that we're in lockdown right now? How do you get a sense of how much of that is a genuine change in the business versus the fact that we're just sitting at home and ordering online rather than going out?

My second question is on the instalment financing. Just a point of clarification, is that wide labelling for large corporates and would you have any presence yourself? Would there be a Barclays "Buy Now, Pay Later" button? Or would it be, essentially, when I go onto Amazon or the other corporates you're potentially going to work for, it'll be through them, but you'll be doing the credit, like a Synchrony or a PayPal for example?

The final question, [...] why are you reluctant to give the 2019 revenue number and the profitability or profits of the Payments business? Seeing as it is quite a big growth profile, particularly on a returns basis for the company, you seem reluctant to give those two numbers and I'm just wondering why?

Tushar Morzaria, Group Finance Director

On Payments and margins, we're actually very well represented in the large corporates space, so large grocery stores, HMRC, etc. Volumes-wise, I think we may have the largest volumes in the UK by some distance already. So in terms of margin expansion and where the opportunities are for us, [we feel that is in] in smaller businesses. It's somewhat ironic because our Business Bank, on some measures, is possibly the largest business bank in the country. But our penetration of our own Business Banking clients in the world of Payments was way lower than you would feel it ought to be naturally.

We've got some fierce competitors who have done a good job in getting those relationships, but when you're a bank to a customer, you kind of have a head start on all of this stuff. If you can integrate your Payments capability into all the banking services that you provide, and it's a very cost effective way of doing it, then your customer should be highly incentivised to give you that business.

The other thing that we find in small businesses is actually the churn rate is surprisingly high. The number of businesses that, if you like, fold or come to their natural end point and new business creation is actually quite high. The opportunities to convert existing customers that may not be using payments with us, but also, making sure that all new customers to the bank do get locked in with us is very high. We think that's very accretive both to revenues and margin.

In terms of your question around e-commerce and levels, is this a permanent change or just a feature of lockdown? No doubt it's probably a bit of both. I think time will tell how much of a permanent change it is. All the data we see definitely suggests that there's a degree of permanency here. Exactly how much, I don't think any of us can accurately forecast. Maybe we'll know that over the next three or four quarters. At the moment, it feels quite significant to us and perhaps an acceleration of a change that's been accruing over some time.

On instalment financing, it could be both. I think the area that we're most targeting is through the retailer itself rather than to start off with a Barclays "Buy Now, Pay Later" button. Although that is something that's in the works as well. We talked about these tie-ups with Amazon [and we've got Apple in the United Kingdom]. The interesting thing about [tie-ups] like that is they are very easy, straightforward approval and customer experience, low drop-out rate and everything. The technology connectivity is very important there, and we already have a branding in consumer lending, the Barclaycard brand, that scores quite highly. At the moment, we're focusing more on relationships with a finite number of very large retailers, but it will slowly evolve into a Barclays button, if you like, as well.

In terms of our reluctance to give you 2019 profitability and revenue numbers [in the Payments business], I think on the 2019 revenues, it's suffice to say that the majority of the £900m [growth opportunity] is new rather than a recovery, and I'll probably leave it there. I know that it's no doubt of some value for you to have these revenue numbers, but we're trying to focus everybody more on the fact that this isn't just a recovery play.

The reason on the profitability is slightly different. The peers that are in this space, everybody talks about EBITDA, and EBITDA is a slightly weird measure in a bank's context. It's something that I wouldn't rule out; [it may make sense to give] folks insight into our margins and EBITDA levels [at the right time]. But it's a slightly quirky thing when banks tend to be [on a] pre-tax profits or return on tangible equity basis, and then switching to an EBITDA [basis]. I can imagine there'll be a lot of questions, like can you take the EBITDA to your RoTE or pre-tax profits or something like that. That can start getting into all sorts of complexity around disclosures, which may be the right thing to do over time, but this is the first step of disclosure for us.

Fahed Kunwar, Redburn

That's a fair point and we'd probably ask a lot of questions on that. Just out of interest, would you be willing, not on this call obviously, but in the future, give maybe at least the percentage of the PBT which you disclose at the Group level? Just to get a sense of materiality in the Payments business.

Tushar Morzaria, Group Finance Director

Yes, I think that's right. I think that's the next thing. We've given you the top line. We'll report that frequently. I think the next thing is a measure of profitability. Whether that's EBITDA or whether it's PBT, it's something we need to do thoughtfully, something that's helpful to you guys, rather than creating a whole bunch of disclosure gymnastics that can be very complicated. The next stage will be some measure of profitability at the right time.

Anna Cross, Deputy Group Finance Director

In terms of your question on the button, we could see a number of different ways this is presented. To the extent that Barclays is assessing the affordability and the creditworthiness of the customer, which we would be to the earlier comment, the retailer will be compelled to make it clear that obviously the customer information is being passed across to Barclays.

So I think it will be very clear to the customer, albeit in some instances that may be sitting in the background, that it is Barclays providing the lending. I think between the two extremes that you've discussed, there is a third option, which is for example retailers' instalments powered by Barclays. You should expect to see all of that, but with a very clear link to Barclays in the background, because we have to assess that customer affordability.

The only thing I'd add on the e-commerce growth is that we're really well positioned for a range of eventualities there. With the traditional business and then all of the investments that we did in the gateway through 2020 to facilitate e-commerce, it is a true omnichannel option that we give to the retailer or business, so whilst the outcome's uncertain, I would say that we're well positioned within it.

Robin Down, HSBC

Just a final swing on this CIB compensation issue. Thanks for the updated commentary this morning. It does sound much more akin with what we're hearing from other banks. Essentially what you're saying is that there's an element in the first quarter that is a genuine bonus pool increase for the year, and there's

an element that sounds like it's just been brought forward from future quarters. I just wonder if you can possibly give us the split? When we look at that £335m or so increase, is it roughly a 50/50 split between the two?

The second question is just a small point of detail on the AARP credit card book. I keep expecting it to appear every quarter and it never seems to arrive. Can you tell us what the latest timetable is on that? How big a book is that at this point?

Tushar Morzaria, Group Finance Director

On the split of the £335m accruals, it's a tough one to answer. I would say that we try and do these things straight, so in a year like this, which is hopefully a less uncertain year than we had last year, we felt the bonus we accrued was very much reflective of Q1 performance and it's returns driven.

I'll give you the flipside of this. For example, if returns were to collapse in the second quarter, which is not a forecast, and we're at 5-7% return, you would expect us to average that out over the six months and adjust the compensation bonus pool as you would expect us to do. If returns remain over double digits, we'll keep on accruing to that bonus pool over double digits. That would have been a more successful year than the one we had last year, so we would expect the overall bonus pool to be higher, and of course, profits and returns higher.

It's hard to give you a precise answer. It depends on the rest of the year, but if returns are in double digits every quarter for the rest of the year, we'll keep on accruing those bonuses. That's certainly a good deal for the shareholder and the employees deserve those rewards. Hopefully that helps to give you a sense of how we think about it.

On AARP, it's just over \$1bn of balances. In terms of closing, I forget the exact date, it's either late Q2 or early Q3?

Anna Cross, Deputy Group Finance Director

I had Q2 in mind, but let's confirm that and come back.

Tushar Morzaria, Group Finance Director

We'll get the IR Team to come to you, but it's soon and it's just over \$1bn of balances.

Martin Leitgeb, Goldman Sachs

On your UK cards, I was just wondering if you could add a bit of colour in terms of what measures Bardays is undertaking to reclaim some of the market share the Group has lost in UK cards over the last years? Could there be similar deals to the one in the US, so partner deals, which might halfway cover some of the balances lost since 2020? Could there be selective M&A in order to accelerate growth?

I'm just trying to understand how we should think in terms of market share going forward. How long could this potentially take to get back to historic levels, if that's the right measure in terms of market share ambition?

Secondly, there are press reports about some of the largest banks in Europe grouping together to create a Payments company. I was wondering if you have any initial thoughts on that? Could this potentially impact the growth ambition for your Payments business in the European Union?

Tushar Morzaria, Group Finance Director

On UK cards, it was very much a deliberate reduction in market share. It's from the time of the Brexit vote. In hindsight, we're probably glad we did what we did, but probably a bit earlier than we could have done if we'd got our timings spot on. So we'd like to increase our market share now, and I'll hand over to Anna to talk about how we might be going about doing that in the UK.

In terms of the news this morning on this Payments company, I'm not sure there's much we've got to say at this point in time. It's a development that we're very aware of and we'll see how that takes off. But I'm not sure, as of this morning, it does anything to our plans or indeed the opportunity that we have.

Anna Cross, Deputy Group Finance Director

As Tushar said, we did take some deliberate actions. We took some of those actions way back in 2016 post the Brexit vote, but obviously a few more post-COVID. You would expect us to return to the market in a controlled way, and that might include for example transfer to bank offers. They are not active in the market right now. Similarly, we have reintroduced balance transfers, but in a relatively limited way. We have also re-introduced proactive limit changes, but again in a very targeted way.

You should expect us to step back into the market, but as we see our confidence in the economy improve. The one thing I would remind you of is that coincidental with the COVID pandemic has been the actions that we and all other lenders have taken in response to the regulation around persistent debt. Even absent COVID, there probably would have been a resetting of some of the cards balances across the UK. That will be a permanent change to the market that you should expect. Fundamentally, this all relates to economic recovery, how customers respond to that and ultimately how we respond from a risk appetite perspective.

Tushar Morzaria, Group Finance Director

Hopefully this has been of some use and we get around to seeing some of you over the next few weeks. Our Investor Relations Team is always here to help out where they can. With that, stay well, keep safe, and see you next time.

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Barclays' management believes that the non-IFRS performance measures included in this document provide valuable information to the readers of the financial statements as they enable the reader to identify a more consistent basis for comparing the businesses' performance between financial periods and provide more detail concerning the elements of performance which the managers of these businesses are most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by Barclays' management. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well.