

**Barclays PLC FY 2020 Results****18 January 2021****Results call Q&A transcript (amended in places to improve accuracy and readability)****Joseph Dickerson, Jefferies**

On capital distribution, the PRA was pretty clear in their December document that you could move away from these temporary guardrails, and return to more normal levels of board decision-making in respect of half year.

When I look at where the proforma CET1 [ratio] is, you generated 81bps of capital in 2020 with a £4.8bn impairment charge. This suggests, on a fairly conservative basis, that you've got [around] £1.5bn of excess capital. Is that something you could seek to use for buybacks in respect of the half year? How should we think about the timing of further buybacks, [which are quite accretive] given that your shares are meaningfully below book?

Secondly, on the card outlook both in the US and the UK, you give a great deal of precision around the outlook for the UK NIM, but a lot of that is linked to card spend and lend. What's the outlook there? [In your scripted comments,] you said you would need to see significant improvement in economic conditions. We're starting to see that if you look at the US retail sales data coming in for January up 5% versus 1% [expectation], and the [stimulus] cheques being dropped into people's bank accounts in January. It seems like the set-up is quite prime for recovery in spend, but you sound a bit more cautious, so I'm just wondering what the delta is there?

**Tushar Morzaria, Group Finance Director**

In terms of capital distribution, it's very important to the Board here that we're in a position to return as much capital as we can into shareholders' hands consistently, and hopefully the actions we've announced this morning are a good demonstration of that.

I think I'd also agree with you that we feel very comfortable with our starting capital position, albeit we called out some natural headwinds. But you can see even from [some of] the proforma numbers that we can quantify, we're still in a very strong capital position and we are capital generative. We expect to be more profitable this year than we were last year, and that will no doubt help.

In terms of announcements for further buybacks or dividends, I think that's probably something to talk about at the right time. Today, I don't think we're in a position to make any announcements on that. Of course, the guardrails are in place, the PRA will do their reverse stress-testing, and they'll come up with their conclusions thereof.

I'd agree with you that getting capital back into shareholders' hands is a priority for us, and the actions that we've taken today demonstrate our focus on that, and we have a very strong capital position to be starting from in our view.

In terms of card balances [in the] UK and US, I think you're right [that] as spending recovers, that will be helpful in the US in the sense that we start benefiting from the interchange fees that are available there.

Even in the CC&P segment, we do include our merchant acquiring business as well, and of course that will respond very quickly to increases in spend level. I should think that the growth in card balances themselves may lag back a little bit. Most people have been saving and acting very rationally, and their propensity to take unsecured credit on [remains to be seen] while there's still a reasonable amount of cash in deposits on bank balance sheets.

It's a very difficult judgement. We've tried to be cautious. You'd expect us to be cautious. As the world moves on and vaccines have the desired effect, and spend levels recover, that ought to be a benefit. But it's difficult to be precise in that judgement, just given where we are at the moment.

**Joseph Dickerson, Jefferies**

That's fair. Would you agree that the recovery in spend and connecting that to lend is probably driven more by improvement in mobility, and non-essential spend picks up where there's probably a greater propensity to revolve a balance? Is that the kind of post that we would look for?

**Tushar Morzaria, Group Finance Director**

Yes, definitely. Usually on essential spend, that tends to be driven more by debit card transactions, and non-essential spend tends to be where credit cards are deployed [more]. I think [non-essential spend] is a good lead indicator; [...] there's more propensity for that to improve card balances.

**Joseph Dickerson, Jefferies**

Just to make sure, [do] we both agree that the PRA said that you can return to more normal board level decision-making [on capital] in respect of the half year, with the normal caveats around the economy not falling apart?

**Tushar Morzaria, Group Finance Director**

Yes, and we'll talk more about that when the time's right. I think let's get through this season, let's get through the reverse stress tests and various other things, but getting capital back to shareholders' hands is a clear objective for the Board here. Hopefully our actions this morning are a good demonstration of that, where we've distributed the maximum that was allowed under the existing guardrails.

**Jonathan Pierce, Numis**

Firstly, the NIM in the UK bank. Could you give us a sense of the trajectory of the NIM as the year goes on? I presume we're just setting lower and lower through the year, such that we probably exit below 2.4%. Would that be correct? And maybe as part of that, can you give us an idea of what you're thinking on mortgage margins as the year goes on? I notice you're leading the charge back down in terms of some of your headline rates.

The second question is on capital headwinds in the first quarter. You've got quite a big unhedged bond portfolio, and looking at the report and accounts, 25bps shift up in the yield curve hits you by about £400-500m, which hits capital as well. Based on where curves are at the moment, given that they've moved up in the last few weeks, is there another headwind coming in Q1, maybe 15-20bps from the bond portfolio revaluation?

**Tushar Morzaria, Group Finance Director**

On NIM trajectory, it's actually quite a difficult one for us to forecast, because you've got a few moving parts on there. You've got the yield curve itself. Now, that's obviously been steepening in recent times. That probably wasn't [factored in] when we were running our own projections, and who knows if that continues to steepen or flatten out again. Obviously steepening is helpful to us, probably more helpful in the outer years, but we'll have some benefit in the current year.

Front-book mortgage margin is another [factor that is] driven by the dynamics of supply and demand in the mortgage market. It's held up reasonably well, and some of the headline rates that you see, [...] just be careful that you correlate that to where most of our production has been and is likely to be. In the forecast, we gave some moderation to front-book mortgage margins, but it's actually probably held up a bit better than we might have forecasted.

Again, the real thing here will be what happens on the other side of the stamp duty holiday. The Chancellor will announce what his plans are at the March budget, so I think we'll have a better picture then. Volumes is another one that's not that straightforward to forecast in an uncertain year. Mortgage volumes have actually been pretty robust, so I think that's probably helpful.

On the recovery and unsecured balances, it's a very high margin product. If there is an increase in non-essential spend, then you'll probably see an earlier recovery in unsecured balances, and that may be helpful in the margin. We try to be cautious in all of these, and things move pretty fast. Yield curves steepened a lot since when we were doing this, and quite frankly the pace of vaccine rollout has probably surprised us a little bit as well. Let's hope that optimism continues, but we shall see.

**Jonathan Pierce, Numis**

So, sat here today, is the message then, based on what you see here right now, that you could do a bit better than 2.4% [all else equal]?

**Tushar Morzaria, Group Finance Director**

It's possible. [...] At the moment, the dynamics are probably marginally helpful, I'd agree with that. In terms of mortgages [trajectory], I wouldn't expect us to be below or well below 240bps at the end of the year. We'll gradually be grinding down on the current projection, but not going well below 240bps.

Your second question [on whether] there is another [capital] headwind due to ASF or fair value through OCI, not really. It's not significant. If it was, we would have called it out. When you have significant moving currencies and yield curves, that's typically a reasonable trading environment for the other side of the businesses [...], so no I wouldn't call that a headwind.

**Jon Peace, Credit Suisse**

Could you help us size the material improvement in impairments you're expecting for 2021? A few European banks have suggested that the impairment level might come back close to the through-the-cycle rates. If I annualise your second half 2020, that's probably a little bit above your through-the-cycle rate. Do you think you could sustain that H2 2020 run rate and impairments to this next year as you think about things?

And then, if I could just ask a little bit about the investment bank, how have you started the year in 2021? I think you mentioned you were well-positioned. A few of your peers have talked about revenues being up year over a year. Has it been the same for you?

**Tushar Morzaria, Group Finance Director**

On impairment, yes you're right to point out that we've obviously been running at a relatively low run rate both in the third quarter and the fourth quarter. The big wildcard here is when or if we get to see the defaults that our models are forecasting.

We're not seeing it yet. You could make the case that there's going to be plenty of government support out there, in which case we don't get to see those levels of unemployment or that degree of consumer stress, and we may end up being overprovided. We're trying to do this as straight as we can, so we've actually even called out in our slide this morning [that] had we just let the models run by themselves, we would have had a lower impairment balance by about £1.4bn.

We've taken up what's called a post-model adjustment to supplement where the models were, and that's really because the models just can't cope with this very unusual economic picture that we're in at the moment, with big fluctuations quarter on quarter in economic data.

At the moment, it's fair to say that the underlying credit picture looks incredibly benign. You can see that in our [CIB]. For example, the fourth quarter tends to be the highest quarter for corporate defaults, and you can see we only had £52m [of impairment] in the fourth quarter. That's extraordinary when you think about all the headlines that you're reading.

Arrears rates haven't really budged on our unsecured credit. It looks pretty benign, but I think we need to wait and see when we're on the other side of the economies reopening.

**Jes Staley, Group Chief Executive**

On your second question about the IB in the first quarter, we don't comment during a quarter, but I would say a couple of things. Last year was a very robust market for the capital markets. We underwrote about £1.5tn worth of debt for sovereigns and corporates. That's in the public inventory now, and the corporate bond market itself grew by 40% over the last two years. That drove a lot of the secondary market activity, underscoring the Markets' performance last year.

We grew our Markets business by about 45% last year, whereas the overall industry grew about 20%, so we continue to capture market share. I'm sure you saw the commentary this morning from Credit Suisse and Deutsche Bank, so I'll leave it there.

**Alvaro Serrano, Morgan Stanley**

One follow-up question on the NIM guidance in the UK. The 240bps is a 16bps reduction versus the Q4 level. I know this is difficult, but can you maybe quantify your assumptions, and the way you think about the guidance? How much of that reduction is structural hedge versus consumer or lending mix? [This is] so we can maybe draw our own conclusions around the recent steepening.

Secondly, on the costs outlook, in the past you've given more specific cost guidance. I realise you've taken some restructuring charges, and you've also called out that COVID expenses will remain elevated. Maybe you can give a bit more detail, if it's easier to give detail by division, can you comment on the BUK outlook versus the overall Group?

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

In terms of NIM in the UK, just to contextualise this, one of the comments that you've probably picked up from our releases this morning is net interest income for Barclays is somewhere around 35-37% for the Group. Obviously UK net interest margin is only a portion of that, so it's a relatively small part of our top line, but nonetheless it's an important area.

In terms of the mix of that and structural hedge contribution, [...] we haven't captured in the latest yield curve moves. That's probably what's prompted your question - the steeper curve, how much of that might influence the NIM? There's a slide in our appendices [...] where we've given the sensitivity to net interest income for an upward shift in the yield curve and a downward shift in the yield curve.

Now, be careful with these, because we're assuming parallel shifts and [in reality it's more] complicated, with curves steepening, shallowing, and various other shapes, but at least it gives you a sense of the sensitivity. [Movements] tend to affect outer years more, but if there's a steepening as we've seen, and if it stays or continues to steepen, then it will have some benefit into this year as well.

I'll probably leave it at that. The other thing that may be helpful is our margin disclosures, where you'll be able to see the notional hedges that we run, and the contribution that the gross fixed leg has. You'll get a sense of the all-in yield, and you can make your own assumptions as to what that might refinance at and model that accordingly.

The final comment I'd say is, we do expect [interest-earning] balances to grow this year, and they did grow last year as well. NIM is one part of the equation forming interest income, [...] but you need to take a view on balances as well. There we do expect decent growth in the mortgage business, and we like to see growth in the unsecured business. We haven't seen that yet. It will really be predicated on when non-essential spend returns, and how quickly that transmits into revolving credit demand.

On costs, the structural cost actions is a way of life for us. We don't call it restructuring. We don't put it below the line. It's something we do every single year, and we've given you some comparisons in the past. We will do some more again in 2021, and we'll include it in our overall cost line, and not try and be clever about reporting things above and below so you can see the full effect of that.

I think the good news is, given the diversification of the top line, particularly some of the strengths we've seen in the CIB that we're optimistic about that as we go into 2021, that will give us the capacity to continue to invest in some of our consumer franchises. We really like those businesses. We like to diversify. For example, we're very excited about our US cards portfolio and our UK mass affluent wealth proposition. We also like Transaction Banking, and we've got very good positions there.

The diversification of top line does allow us to [continue to invest], in addition to the efficiencies that we would naturally create. I haven't given guidance by division, and I don't think we'll do that at this stage. It is, again, an uncertain world. It's difficult to give precise guidance, because we don't really know when economies are coming out of lockdown, and what the economies look like on the other side of lockdown. We're probably feeling more optimistic now than when we were writing a lot of this, but it's a fast-moving picture, so probably more to come at the right time.

## **Benjamin Toms, Royal Bank of Canada**

On the CIB, it's performed well this year and the market share has materially increased. Do you see yourselves continuing to take the same market share gains in the IB or is it a lot harder work to win share from here?

Secondly, on real estate optimisation, which you've spoken about before, there's not much detail about that in the slides. Is that because it's a 2022 thing? Is now not the right time to go faster and harder on branch reductions? Can you just give us some more colour around real estate optimisation?

**Jes Staley, Group Chief Executive**

On market share gains, we had good momentum in the IB through every quarter of last year and across Equities, Macro and Credit. We hope to continue to gain market share, and we also expect the size of the market to continue to grow, [which will] support the financial performance of that business.

In terms of branch closings, the consumer in the UK is definitely moving interactions with Barclays to our digital channels. Our sales through the internet and our payments business were up over 30% last year. The usage of our mobile banking app was also growing at a very robust pace.

As that transition happens and our consumers engage with us digitally, and we advance our digital offering, branches get used less. We're going to be very prudent in how we deal with branches. We still have over 800 in the UK, but I think you'll gradually see that number go down as we have over the last couple of years. So yes, there will be further branch closures.

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

Another follow-up on BUK NIM. The slide that you mentioned before on the structural hedge rates sensitivity would suggest a potential £100m uplift from the move-in rates that we've seen in recent weeks, so I just wanted to check that that's roughly the right ballpark? In that 240bps guidance for BUK, what are you assuming in terms of average cards balances through this year?

Secondly on CC&P, there are obviously two parts to that business. In reference to an earlier question, I think you suggested that the Payments part of the business should track spending trends, so is it fair to assume that the mix of the cards business probably means that that lags the broader trends in US card balances, given the bit more exposure to travel and leisure?

**Tushar Morzaria, Group Finance Director**

In terms of the potential upside on structural hedge from the recent curve steepening, I don't want to quote too much around whether it should be £100m. The reason I say that is, the slide you're referring to shows parallel shifts rather than steepening [...]. It's directionally positive, but I'm reluctant to give you a precise number on that. It's a positive, and I'll just leave it at that.

On the 240bps NIM guidance, we actually assumed UK card balances would be flat to maybe even down slightly. Now that's obviously when we're making all of these projections. The world moves so quickly, and that may seem too cautious now - maybe economies recover quicker and non-essential spend picks up quicker, so we'll have to see.

As you know, it's a two-fold thing. First of all, you've got to have the spend and demand in the right categories. Then there's credit appetite as well, so we'll see how that goes. We were rather cautious in our forecast by suspecting that card balances are flat to maybe even slightly down.

In CC&P, in terms of US card balances, it will follow spend. In some ways, the good news about the US market is people value these rewards, and they're not just spending because they need unsecured credit. They tend to value these. It's a slightly different dynamic, and of course the cards that we have are very much non-essential spend - travel, entertainment, hospitality, leisure, etc.

If spending in those categories were to come back, and there's a case to be made that it ought to start coming back over the course of this year, then you'll see some benefit flowing through. Probably in the second half of the year, rather than the first half of the year. There is a timing effect when people start booking their travel and holidays. [There's some sort of lag] by the time it ends up on your card balance, but it'll probably be a bit quicker to see that recovery in the US, because of the nature of that business and our partnerships in the US relative to the UK.

**Jes Staley, Group Chief Executive**

The beauty of the Payments business in the UK is that we've made significant investments in technology, which runs the merchant acquiring business. We are starting to see the impact, particularly, as I said, through internet sales. We're also connecting applications that run our small business banking group with our merchant acquiring group. That will also have an impact on the growth of our merchant acquiring business, particularly in the small business space, which is where the profitability lies.

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

Can I just clarify on the UK cards balances? When you say flat to down year-on-year, are you talking about year-end position? I presume you're talking about the year-end position rather than the year average?

**Tushar Morzaria, Group Finance Director**

Yes, the year-end, so by the time we get to 31st December we thought we'd be flat or maybe marginally down.

**Ed Firth, KBW**

A quick question on the capital headwinds. [On procyclicality], I think in the past you talked about around £5bn at the half year as the procyclical order of magnitude number? Have I remembered that wrongly?

Secondly, you highlighted that regulatory forbearance would be coming back this year. Can you just remind me roughly what we're talking about in terms of numbers for that as well?

**Tushar Morzaria, Group Finance Director**

On regulatory forbearance, a good example is PVA, which was granted in the first quarter of last year and reverses on 1st January. I think I'd probably put software capitalisation as a similar example, where the PRA has been quite straightforward in saying all along that they never considered it to be good capital, so they'll no doubt reverse it. It looks like they'll do that during 2021. Those are probably the two clear examples that come to mind.

All in all though, I'd still come back to the broader point there. I just want to help you with your model. There are headwinds out there, but we're still well above our stated guidance in terms of target ratio, and we expect to be generating net capital over the course of the year. In the realm, we're still pretty comfortable with everything.

On procyclicality, the number we called out was £10bn of procyclicality that we've seen in 2020. [...] What it will be for this coming year, that's a tough one to forecast. It's actually surprised us on the downside a lot. I've guided to the procyclicality coming in Q2, Q3 and Q4. I guess I'm going to stop guiding at some point because it hasn't happened yet. If you believe the conventional thinking that at some point the strength in the economy results in defaults, you ought to see some procyclicality. It hasn't happened yet and it's not happening in the near-term, put it that way.

**Jason Napier, UBS**

Coming back on the commentary around costs, you've retained your medium-term 60% cost: income [ratio] objective. [Consensus at the moment sees] costs as broadly flat this year with revenues down 5%. I would've thought that coming into 2021 - with probably a higher headcount than planned, strategic costs for last year, and COVID costs in the base - that better than flat would've been consistent with what Jes has said in the past about delivering a stable cost: income ratio in CIB over time. I just wonder whether you might give a bit more concrete guidance on the direction of travel for costs in aggregate? It doesn't seem sensible, unless there was an awful lot of investments that didn't happen last year as a consequence of COVID [and flex is limited] if revenues are going to be down as consensus expects.

Secondly, [you applied] risk overlays throughout the second half of last year, and everyone continues to be positively surprised by the lack of movement into stage three. Your coverage levels are huge and rising still. How confident are we, given how long this has been going on, that the stage splits are right? If we can be sure that stage two is as big as it ought to be, then perhaps we can think about what provision releases might be sensible into the second half.

Do you have a good handle on which of your customers are recipients of furlough aid and so on? Clearly the payment holidays are almost all gone now, and yet things continue to proceed very strongly from a credit perspective. I guess if you could just talk to confidence around staging splits and coverage, that would be helpful.

**Tushar Morzaria, Group Finance Director**

In terms of staging splits, many of our customers do have current account relationships with us. For those customers, we have a lot of insights into their specific situations, and we have a high conviction on staging. Of course it's an open market product that we have in our unsecured books, so they don't have to be a current account customer to have a credit card with us, and if you're not, we obviously have less visibility on your specific circumstances.

I think at the end of the day, we don't have any historical data to calibrate this to either, so we are being appropriately cautious and you can see that in the risk overlay. [...] I think the real unknown here is the involvement of governments, the fiscal response and what will happen here. [There are already talks around] staging out furloughs and things like that to make as smooth a transition as possible.

If that were to be the case and unemployment levels really don't go anywhere near where our MEVs are currently being modelled, then it's a case of saying we may be overprovided. We'll know in good time, but we've tried to be as transparent and as open as we can.

The other thing that's hard for the model to pick up is the glut of savings. You may have higher unemployment levels, but you've got a lot of cash sitting in deposit accounts, and that may lessen the stress and balances have fallen as well. I think [how benign credit has been in Q3, Q4 and even into Q1] has surprised [...] all of us. We'll be on the other side of the lockdown soon enough and we'll know for sure.

On costs, the cost: income ratio is an objective for us, and it's something we manage without trying to rush in one particular year. We try and manage the company for the medium-term, so it is important that we continue to invest, and the cost: income ratio is as much a function of income as it is costs.

We have firm areas of growth on the top line that we are very excited about. You've seen that in the CIB in terms of market share pick-up there. There's potentially more to come. We're doing really well in some of our electronic trading capabilities and securitised products. It's a relatively small product set for us, but



growing extremely quickly. In Equities as well, you've seen outperformance in the last six months of the year in our equities trading line, which has been quite interesting. Equity capital markets is another really interesting area for us in building out that franchise. That's doing really well at the moment.

In the consumer businesses, we'd like to diversify our cards portfolio. [For example], AARP, the American Retirees portfolio is coming online this year. Jes talked about some of the investments we're making into our Payments business, so I think it's important for us to continue to invest and focus on the top line as well.

We're able to do that because we can generate capacity for our ongoing efficiencies during the course of a year like last year and a year like this year, without expenses climbing in a way that doesn't make sense. That's how we think about it, and ultimately to get to the right shape of the company, we've got to think about the top line and not just the costs line when we look at cost: income ratio.

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

Another line of growth that I think we'll start to articulate more explicitly relates to our point of sale financing. We have a terrific partnership with Amazon in Germany. That's their second largest market and they have 40 million consumers that regularly use Amazon online. We have a great partnership with Apple in the UK. We fund all of the iPhones and tablet sales on an instalment basis. Those are just two examples, but we are rolling out our point of sale financing as we build out our Payments business.

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

Firstly, I just wanted to come back to costs and then I had a question on the longer-term consumer balance outlook. On costs, focusing firstly on the CIB, costs were broadly flat this year despite the very strong revenue performance. I know in the past you've talked about your cost base being less variable on the CIB than some US peers, but even so, one might expect a higher cost.

If consensus is right for 2021 and CIB revenues are markedly low in 2021 on 2020, I appreciate that might not be your view, but if that was the case, should we expect a reasonable drop in costs, especially given the FX movements as well? I appreciate it's hard to guide on cost: income [ratio] this year given uncertainties on the top line, but to the previous questions on efficiency gains, perhaps structural cost charges are flat or down this year on last year, perhaps the levy should be lower? I think the absolute cost base should be nearer to £13.5bn or perhaps lower in 2021 and consensus is somewhat higher?

Then the second question was just on consumer balances longer-term. We've seen your UK consumer balance declines over 30% since the start of 2020, they're still declining, and not a dissimilar situation in the US. As we look further ahead, I'd be interested to get your views on how many years does it take to recover those balances? Would your central assumption be that we just model low, mid-single digits as the recovery takes hold per year, which would take ten years to get back that balance? Or given the very unique nature of this crisis, it could rebound much sooner than that?

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

On costs in the CIB, there is flex there in terms of the bonus pool, and we've made the bonus cap framework here in the UK as flexible as we can. We made some changes when Jes first arrived to give us that, so there is some flex there, and we'll be judicious about the pace of the investments and all that.

Going back to your earlier comment, we probably do have a different view of the income outlook than others in general may have. I think the investments that we've been putting into the CIB have been

rewarding us quite well, so we'll continue to balance that appropriately. In terms of consumer balances, I can't imagine it's going to take that long to recover. I think we're living in a very weird contraction that's been very dramatic. I don't think you'll see a steady multi-decade build-up as we've seen in the past.

[Additionally], as Jes mentioned, unsecured balances are important, but customer behaviour is changing. Younger customers in particular are much more into instalment financing at the point of purchase. It's great business for us. Jes also mentioned the Apple partnership in the UK. We've got a tie-up with Amazon in Germany, and there's various other things that we'll talk about at the right time.

I think it'll be a more rapid recovery than that, albeit you've got to see an economy that's back to a more normal level, and then I think you'll see a relatively quick recovery.

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

When they reverse the lockdown and all the stores across the United Kingdom open up, I think the spring back in spending is going to be to the upside. I would echo what Tushar said, this is not going to be a low single-digit recovery grinded out over a decade. I think the response to the pandemic being over, given how aggressive the fiscal and monetary policy has been, is going to be strong and we'll feel it in our numbers.

For the last decade, both our consumer businesses in the UK and in the US were generating consistently mid teen to high teen returns on capital. I think that is more a reflection of the fundamental strength of those two businesses than what's happening in a once in a century pandemic. Going back to the cost: income ratio, we [will hit our financial targets if we] get any recovery to what those businesses looked like in 2018 and 2019.

#### **Robin Down, HSBC**

[On impairment,] I'm a bit confused as to what you've done, because you've moved the macro assumptions more positively since Q3, and then you've also changed the weightings of the scenarios towards upside scenarios and away from downside scenarios. At the same time, you've applied £1bn as an overlay.

It just feels somewhat inconsistent, and I suspect we're not going to get the answer to this, but are there any particular trigger points that you're looking at? I can't help but feel that we should be looking for debt releases at some point in the second half [as we come out of lockdown]. [...] I can't really see why you've put the extra billion aside.

Then the second question on structural costs. Apologies if this was asked earlier on, but any view as to what those look like in 2021 and what the payback might be from them?

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

On impairment, the weightings on the scenario are actually a function of GDP. The way these models work is they will take economic outlooks and then project scenarios either side of that - two up, two down, and these are model-driven weightings. It's just a function of the model. That model is based on historical data, and how economies and confidence level of different projections have baselined to actuals we've worked out. It's just purely mathematics, if you like, behind the scenes.

On the PMA, [...] the challenge we have at the moment is that the models are calibrated on previous business cycles. In previous business cycles, you never had such a rapid expansion and contraction in economic data, so what you tend to have is the model just exaggerates those moves. When

unemployment starts growing, it massively overshoots. When unemployment stops and starts falling, it just thinks the recession is over and releases everything immediately.

At the moment, it's just hard to know for certain how the economy will adapt to a post-lockdown world. I think we're close to that point. The early signs are that credit looks incredibly benign and governments are looking to do their best to smooth the transition. Were that to be the case, then we probably won't see the levels of unemployment that the models are working off and we may be overproviding, but we'll know in good time. We've tried to be somewhat transparent on how these models are currently working, and what we're having to do to counteract the exaggerated moves the models may have.

On costs, we haven't called out specific structural cost actions for 2021. We do this every year. If there's anything meaningful and important, then we'll call it out as we go along, but nothing to say specifically at the moment.

**Jes Staley, Group Chief Executive**

Going back to impairment, when the crisis began, with the financial resiliency that the bank was showing and the level of capital that the bank was accumulating, we wanted to be prudent in the impairment line. We got our impairment reserves to £9.4bn, which given the size of our balance sheet, is a very strong position to have.

Then I think all of us are positively surprised by the degree of the governments' response [in trying] to contain the economic damage caused by the pandemic, [both here, in the US and in Europe]. That is encouraging. If we are coming to mass vaccine rollout that we've seen in the UK, that's going to make the credit picture much brighter for us.

**Robin Down, HSBC**

If I can just come back, and I appreciate fully that you want to be prudent and I think if we were all in charge of Barclays we'd be doing the same thing, but the reality is if the economic outlook is as you forecast, as we forecast and as consensus forecast, it just feels like you've just stored away another £1bn that you didn't need.

**Tushar Morzaria, Group Finance Director**

We're trying to do what we think is the right level of provisioning. We think we have it right, but you can certainly make the case that credit will turn out better than is forecast and I'll leave that to others' judgement. We think we've got it right, but look, we're all looking at a crystal ball that we've never had experienced of before.

**Jes Staley, Group Chief Executive**

You saw almost all the US banks released in the fourth quarter, and that's not because they got it wrong in the first quarter last year. It's just they're reflecting what they're seeing on the ground.

**Chris Cant, Autonomous**

I had a couple on costs and then one on FX. The 60% cost: income ratio target has been a medium-term target for a while now. What's the timeframe for hitting that? In terms of the mix of the business, how do you see the shape of the Group in terms of profit split going forward when you're thinking about that 60% cost: income ratio?

If I look at controllable costs and income, so parking litigation, conduct and the levy, the two consumer divisions generated £5.5bn of pre-provision profit and the CIB was £3.3bn [in 2019]. For 2020, those numbers were basically flipped on their head, and it's now £3.4bn for the consumer facing businesses and £5.8bn from the CIB. From your commentary, it doesn't sound great in terms of the consumer outlook, so what are you assuming there in terms of the longer-term structure of the group?

The CIB cost: income ratio in 2020 was at the very low end of the industry, 55% for the full year I think it was, so is that actually sustainable? You've never delivered that in the CIB in any previous year. It would seem necessary to assume that you can maintain that cost: income ratio to be able to get the Group below 60% if the mix of the business is now so skewed towards the CIB.

Then in terms of FX, you've talked in the past about 40% of revenues being in dollars. I think you gave that remark back in 2019. What was that number in 2020, given the skew towards the CIB? Related to that, how much of your cost base is in dollars? I'm just trying to think about the FX headwinds you're facing for 2021, which looks like it's going to be about a 7% to 8% year-over-year dollar headwind.

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

The 60% cost: income objective is something we've had for, as you said, some time. I think we were getting towards that zone in 2019. In fact, we weren't a million miles away in 2020, but obviously 2020 was a year that none of us forecasted. We feel we have the diversification in the company. We've obviously seen a fairly sharp decline in the consumer facing businesses and a big tick up in wholesale.

No doubt we would expect an improvement in the consumer facing businesses as economies recover, and we'd like to continue to consolidate and even improve the contribution that our wholesale businesses have. With that mix in mind, we still believe we have a path to a 60% cost: income target. It's very hard to be precise on [what] percentage is in consumer [and what] percentage is in wholesale.

You have to manage it on a variety of outcomes, and we believe we can do that. We can't give you a year on it obviously. It's a very uncertain world we live in, so I think it's very difficult to forecast with any degree of precision at the moment, but we still feel that it's an achievable objective for the company in a reasonable timeframe, albeit we won't give you the precise timeframe at this point in time.

In terms of foreign exchange, you're right that we called out approaching somewhere like 40% of our income was in dollars two years back or so. It's been a mixed bag this year of course. The investment bank has done really well and our cards business in the US has come off as balances have come down, so there's plusses and minuses there. It's fair to say a stronger pound is a headwind for us because we are profitable in dollars, and that is just who we are.

We don't give a cost breakout in dollars, because we obviously have a focus in India, we have a focus in different parts of the world, so it's not quite as straightforward as that, but yes it's a headwind. If you're going to model FX across all lines, I guess impairments ought to be a tailwind as well. In CC&P, a lot of that is US cards driven, and even on the investment banking credit portfolio component of our credit books, that's very dollars denominated as well. Net-net it's a headwind.

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

We're going to keep the diversified model. The pandemic will get behind us and the consumer business will start to grow again. We'd like to keep that balance between the investment bank and consumer businesses. In a normal economy, I think the 60% cost income ratio is very capable, given that we delivered 63% in a very abnormal economy.

**Chris Cant, Autonomous**

If I could just follow up on the FX point, could you help us out a bit there because it does feel like quite a big effect for you year-over-year? You're not willing to comment on the outlook for CIB revenues. You don't want to comment on Group level costs. It would be really helpful if you could give us some breakdown in terms of allowing us to get a sense of the currency effect.

Is it more than 40% of revenues in 2020 in dollars? I suspect it is, and I guess the percentage of cost is higher than the percentage of revenues, given that you're a UK domiciled bank with a group centre cost base that is going to be presumably more in Sterling. Am I along the right lines there? Is it 45% revenues, 50% costs, something like that?

**Tushar Morzaria, Group Finance Director**

I'm not going to comment on your numbers. We haven't disclosed that, and I don't want to be disclosing stuff like that on a call like this, but suffice it to say that we are profitable in dollars. A stronger pound is a headwind, but I'm not going to give you any more colour than that. Maybe in the future we'll maybe break out the bigger FX splits or something like that, but that's all I'm going to say at the moment.

**Rob Noble, Deutsche Bank**

You highlighted it'd be tough to grow income in CC&P. Do you think you could grow non-interest income in the UK this year? How's the lockdown experience in January and February compared to last year?

**Tushar Morzaria, Group Finance Director**

Again, it's a little bit of a call on economic activity, but we'd like to think so. Focusing on some of our fee-generating opportunities is important to us. We've given you some of the ideas where that is, certainly in the world of Payments, certainly in the world of some of the Wealth activities that we have. It's a priority for us, and depending on if we've got the right economic circumstances, there is a possibility that we could do that.

**Martin Leitgeb, Goldman Sachs**

Firstly, could I ask on your market share ambitions in Barclays UK related to cards and mortgages. On cards, Barclays UK card balances were down more than that of peers and more than that of the system in 2020. Equally, since 2016 there has been a de-emphasising of card growth in the UK at Barclays UK. How should we think [about this] going forward? Should we think your market share in credit cards will stay roughly stable? Or should that increase or decrease from here given the appetite and opportunity?

Related to that, a similar question on mortgages, it seems like you are growing. Your flow share is slightly ahead of the stock share in the UK. I know there's a comparatively high excess deposit base now within Barclays UK. Does that give grounds to maybe faster growth and share gains in mortgages going forward?

The second question is more broadly on the regulatory framework in the UK post-Brexit. How should we think about [the evolution of] the regulatory frameworks [on a medium-term basis]? We have seen software intangible treatment being slightly tougher compared to some of the other regulators. Is that the direction of travel? Or are there elements where the regulatory framework could make things easier from a Barclays perspective? Is there anything you would wish for which could change in terms of the regulatory framework going forward?

**Tushar Morzaria, Group Finance Director**

[...] This is going back a long way, but from the time of the Brexit referendum, we were taking a very cautious approach in UK credit. We were probably a little bit early, but glad we were cautious leading up to a pandemic, which of course none of us forecasted.

It probably does turn into a better net fee outlook for us, because late vintage lending is where you typically take most of the pain. I think from this point on, we're now on a different part of the cycle. I think you'd expect us to, if anything, possibly even lean into risk as you go into an upswing. I certainly wouldn't expect our market share to diminish. If anything, we'd be focused on increasing it again.

[Likewise with mortgages], we are running well above our natural stock of mortgages, and I think that's something we're minded to continue to do, as long as the returns are there. We're very focused on the risk reward balance at the moment. I think it's a very attractive business from our vantage point, so we'd like to increase market share of both [cards and mortgages], but probably for slightly different reasons.

We're probably already doing that [in mortgages], and I think we're at a point in the cycle where we'd want to be leaning into that [for unsecured credit]. Again, as Jes mentioned in the past, it's not just cards. Unsecured credit can take different forms of lending, so we would look at that in the round as well.

**Jes Staley, Group Chief Executive**

If you look at the challenger banks and the digital banks, they clearly have headwinds and challenges, and I think that always makes our market share more defensible. I think you'll see that happening over the next couple of years.

**Martin Leitgeb, Goldman Sachs**

On the regulation?

**Tushar Morzaria, Group Finance Director**

Sorry, on the regulation, I'm not sure there's much I can give you on that. The PRA was very involved in influencing the European rulebook, so I think a lot of what they would want to see probably made it into the rulebook. The bits that they probably didn't agree with, for example software capitalisation, they've been pretty open and straightforward about, so I'm sure things will evolve over time.

I think they're a very sophisticated, extremely responsible and balanced regulator. I suspect they'll be continuing in that vein, but I don't have any greater insights into any big changes that they will or will not do. I'm not sure I've got anything to comment on that.

With that, thank you everybody. I'm sure we'll get the chance to speak to some of you in the days to come. We'll see you later.

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