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**Barclays PLC**

**Barclays PLC FY 2014 Results**

**Analyst call Q&A transcript (amended in places to improve readability only)**

**Antony Jenkins**

And with that ladies and gentleman, Tushar and I are very happy to take your questions. As always, we'd like you only to ask one question. We have difficulty policing this, so please, I understand you're going to want to ask multi-part questions, but if you can keep them relatively short so everybody can get their turn. If you would say what your name is, and which institution you're from.

**Raul Sinha, JP Morgan**

Hi, good morning, it's Raul Sinha from JP Morgan Cazenove. Maybe I'll just focus on costing. Obviously you've done much better than, or slightly better than, your guidance of £17 billion in the previous year. And you probably didn't anticipate, I think this question was asked at Q3 as well, the impact of the Spanish sale in your forward looking cost guidance. I think Tushar has already flagged the FX translation impact. Could you confirm two things, firstly, is there any reason why your underlying cost progress shouldn't continue to be better than what you had said, excluding the impact of FX? And then secondly, the impact of FX as I understand would be on your US P&L, which if costs are higher, then revenues and PBT would also be higher? Is that probably correct? Thanks.

**Antony Jenkins**

Well the second part is, of course, true that if FX works against us on cost, it should work for us on revenues and profits. On the first part of your question, let me be clear, cost is the strategic battleground for our industry. I think we've made very good progress in taking out £1.8 billion in a year. We think we have further, and farther to go on the topic of costs. Tushar has said that we're not going to change our cost guidance for this year, recognising that Spain comes out, but then we've got the headwind from FX.

But, the core issue here is really a strategic one. The automation of banking is critical to the success of any institution. You saw the charts of PCB with the CIR, we've taken it down by 10 percentage points.

We think there's an opportunity to continue to drive that down as we automate the business. Not just for the customer in the frontend, but also eliminating large amounts of middle and back office work. And that will give us the ability to structurally continue to step the cost base down over time. One of the things I feel very good about, where Barclays is on this, is that we've been doing this for a long time, we didn't just start a couple of years ago.

So we've learned a lot of things along the way about how to really implement technological change, and we intend to drive that really hard this year and next, to keep getting that cost down. So we haven't changed the formal guidance, but we remain very confident that we can continue to deliver a strong performance on cost.

### **Tushar Morzaria**

Let me, if I can, just add a couple of points to Antony's question there, because I think it's important that we just talk a little bit more about foreign exchange rates. Foreign exchange rates were actually a headwind in terms of P&L for the bulk of 2014. And we didn't really talk about that during the year. But we booked increased profits, adjusted profits up 12%, which is actually depressed down by the foreign exchange headwind that we experienced over the course of that year.

The other thing with foreign exchange, of course, is it does impact the hard targets we put out around for costs. You did see that we lowered that target during 2014. Some of that was driven because of an FX tailwind – if you like – bad for profits, but good for costs. But in the fourth quarter that tailwind reversed to a headwind. It's quite a nasty thing to happen actually when you're given a hard cost target for a full year, and in the last quarter all of a sudden foreign exchange rates start counting against you. But we didn't change that target, and we beat our original guidance.

And when I look at 2015, if I apply exchange rates that we used in May, when we set the targets now, we would have a substantially higher cost base than £16.3 billion. So we're not coming off that, we're eating the FX headwind, which is very significant. And so I think, Raul, to your point, you are just seeing immense underlying operational improvement.

And just for a bit of fun, this is my first full year here, and when I first joined I met many of you on a listening tour. One of them was JP, just behind you, and I think you've been covering us since 1989. Well, we went back to 1989 and we haven't found a year, at least since then, where costs have reduced this much at Barclays in any one calendar year. So feel pretty good about the progress that we've made, lots more to do, but, you know, that FX sort of environment is important to contextualise.

### **Antony Jenkins**

So moving to JP Crutchley

### **JP Crutchley, UBS**

Yes, John Paul Crutchley from UBS. There's two related questions actually about the Investment Bank, it's sort of the same question. What we can see is clearly Non-Core has repositioned the Investment Bank within the size of the Group in terms of size, shape, balance, etc. But the journey to decent returns still looks as distant as ever, and I wonder if you could maybe just walk us through how you expect to bridge from where you are today to an ultimate destination where you're achieving your cost of equity.

And in relation to that, looking at these numbers, what really strikes me about the Investment Bank is clearly you've been repositioning it; it's a smaller business, the revenues are coming down, and you've talked about the cost side of the equation coming down as well. But the capital employed in the business actually looks pretty much unchanged year on year in terms of risk assets and equity too. So, I wonder if you can maybe just say a few words about the capital demand of that business too, and whether that's actually pushing against you in terms of getting the return on equity that you want to achieve?

### **Antony Jenkins**

I'll ask Tushar to pick up the detail on cost and capital in a minute. But, let me just say how we're managing the Group, because we are managing the Group for returns. We have to deliver returns for our shareholders. The Investment Bank, of course, has been impacted the most by all the regulatory changes, [there is] much bigger capital demand in running almost every activity in the Investment Bank. And that has made the challenge more difficult. We think the strategy though in the Investment Bank is of focusing on clients, and Tushar quoted some of the stats where we've had good market success.

Again using technology to automate middle and back [office] to take costs out, streamlining the business, optimising capital, we think that's the right strategy for the Investment Bank, and it is really an optimisation between revenue, cost and capital. But, for the avoidance of doubt, we will deliver our return target in the Investment Bank and we will do whatever it takes to make that happen. If further cost has to come out, so be it. If we need to reduce capital, allocate it to certain activities, we'll do that too. We've got a good track record of doing that now. Tushar in a minute will take you through the waterfall from where we are now, which is about 4.4% ROE in the IB, if you adjust out CTA, to how we think we can get into the double-digit range.

But we are absolutely focused on getting the returns up in the Investment Bank - we'll do whatever it takes to do that. And you'll note, of course, that in the other parts of the Group, the returns are in pretty good shape, so just need to get those Investment Bank returns up. Tushar?

### **Tushar Morzaria**

Yes. So let's cover costs and then I'll come back to maybe a bit on capital. So, costs is unfortunate in a way, because I think on some of the progress that we've made in the Investment Bank's cost base you can't quite see through the numbers. There's some obvious things like deferred compensation, so obviously compensation levels are now, post-restructuring, substantially lower than where they were in 2011, '12 and indeed '13. Yet 2014's P&L only reflects those three years with compensation. So you're seeing that elevated level of deferrals hit the books at the moment.

We also get a little bit double-dipped in role based pay here as well. We've had to increase fixed pay along with CRD IV regulations by about £200 million. About £200 million equivalent was variable pay in previous years, so we're really getting, if you like, that role based pay added back to us twice. Now when you think about £150 million, plus or minus, is worth about 100 basis points of ROE. And when you're having £200, £300, £400, £500 million of inflated costs, that's serious money for that ROE.

On top of that you look at conduct and litigation. And we're quite strict, we're quite tough with the IB here, so they eat all their own conduct and litigation charges. You see in Core we booked about £250 million of conduct and litigation charges. You can make your own estimates of how much of that is in the Investment Bank, but obviously an amount will be. That's quite nasty stuff, because you don't get the tax shielding on that as well. So, the pre-tax amount's quite substantial. And on top of that are the legal costs of dealing with these conduct fines and settlements. The actual legal fees are also booked in the Investment Bank, and we're quite tough there as well.

So, times when you could almost feel perhaps we're being a little bit unfair is, take Lehman Assets, the recovering of the Lehman Assets is a credit. Well, Antony and I sort of keep that credit for ourselves and don't give it to the Investment Bank, but we do ask the Investment Bank to pay for all the legal fees. So it probably feels a little bit unfair. But that will roll off over time as those Lehman Assets are recovered. So take foreign exchange as another good example. If you look at PPI, the legal costs associated with dealing with the PPI redress programme are in the PPI charge. But for foreign exchange it's actually paid for by the Investment Bank, even though we've put it as an adjusting item.

So, when you strip out all of those things you get a real big needle move in current reported ROE. So it gets you directionally close to where we need to be. But as Antony said, that, in of itself isn't going to take us 100% there. We will continue to optimise capital, continue to sweat the balance sheet very, very hard. We've got very good at absorbing RWA inflation, particularly in the Investment Bank. They've done an amazing job of dealing with all the various rule changes that most of you probably don't get to see as much, and is still keeping to just over £120 billion of risk weighted assets. And we'll continue to do that. As Antony says, we won't stop until we get to the right returns level.

**Antony Jenkins**

Next question please. Let's take one from this side of the room.

**Chirantan Barua, Bernstein**

Morning, this is Chira, from Bernstein. I have a question - the two important units which are coming up which is the US FBO and ring fencing. So looking at the Core balance sheet and P&L right now, it'd be great if you could give us some guidance to the impacts on cost capital funding with regards to that, and where are you in the process, and are there any other costs that we should be worried about on both? Thanks.

**Antony Jenkins**

Well, we're well in progress on establishing both the intermediate holding company in the US and the ring fenced bank in the UK. As you know, here in the UK we had to submit our proposal on the ring fenced bank to the PRA. We're in discussion with the PRA now about how that will work. Obviously there is a lot of detail involved in both these units being established, and we have thought quite hard about what the capital funding implications of these things are. The headline is that we believe that we can absorb the establishment of both of them, and deal with any increased funding costs and capital requirements through the activities that we've already got underway in the Group. And as we develop the plan for structural reform here in the UK, we'll come back and share that with all of you in detail. We won't be able to do that, I think, until the second half of the year. Is there some more detail you want to add?

**Tushar Morzaria**

No, I think you covered it. I think on the funding side, maybe just to cover that off, you already see us moving to a single point of entry framework, and you've seen us issue term funding out of the holding company. We have quite a clean holding company, and we haven't seen new issuance spreads vary significantly from operating company levels, and that's all down-streamed down - it's more of TLAC environment, and we'll talk more about that on the fixed income call. But, it's hard to know what the funding costs will ultimately be - we'll go to the credit rating [agency environment to assess that], stuff like that, but at the moment we're not seeing significant pressures.

**Antony Jenkins**

Let's take another one from this side.

**Tom Rayner, Exane BNP**

Good morning, thank you. It's Tom Rayner from Exane BNP. I just want to ask you on the dividend please. Really, why you held it flat when that meant missing your own pay-out guidance? And I guess my question's really linked to the capital ratios, and the end state 12%. My suggestion is that 12% is actually tougher than it looks when you take into account RWA inflation for operational risk, and

market risks that are coming your way. I wondered if that might be part of the reason.

Also, the actual target itself of 12%, I don't know whether that's included any allowance for counter cyclical, or for the ring fence buffer, the 3% on the ring fence part of your bank? So, I just wondered if linking all that together, if that explains the dividend decision at all? Thank you.

### **Antony Jenkins**

Well, let me take the dividend part of your question, and then I'll ask Tushar to talk about all those components that you referred to. On the dividend we were basically at 38% with a 6.5 pence pay-out. A 40% pay-out would be 6.9 pence. So it's really de minimis in terms of the quantum of the extra dividend pay-out, or the dividend per share. We just felt that while we continue to build capital, it was prudent to pay out at the same level as last year, nothing more than that. I will say that we believe that it is very important for the Group to cross the thresholds that we've set, at greater than 11% CET1, and greater than 4% leverage. We think once we've crossed those thresholds then there are choices that open up for us.

We would expect to continue to build the capital position, but more gradually. But, obviously, a lot of choices open up for us then in terms of whether we invest back in the businesses, increase dividends, and so on. And, you will note that we've made very good progress on both CET1 and leverage in the past year, and we expect to substantially complete that job of getting to 11% and crossing that threshold on leverage over the coming months. But, Tushar, do you want to talk more on capital?

### **Tushar Morzaria**

Yes, so end state capital requirements, and it's hard to put a precise number on them, because of the various reasons, Tom, that you put out there. The way I think about it though is, to first of all derive what we think the end state could be, based on what we know today, and it's pretty easy to add up all the buffers and Pillar 2A additions, and you get to 10.6% for us, and then 150 basis point buffer based on where we feel today, gets you to about 12%. If we're at a point where there's a likelihood of a counter cyclical buffer being put in, in some way that's good news because it means that the environment that we'd operate in would be very bland. But when you've got 150 basis points buffer you can continue to accrete capital in plenty of time to go to, say, 13% if that was the requirement. So I think it's more about end state plus buffers.

To your point on ring fencing, it's another good one as well. As things get clearer and, the end state capital requirements are greater than 10.6%, so be it, we'll adapt accordingly. In terms of RWA inflation, I think you're right. There are definitely a bunch of rule changes coming out on the horizon, a lot of consultation papers that are out there. Whether it's standardised risk weights; fundamental review of the trading book; interest rate risk on the Bank; there's a whole bunch of stuff out there. We'll

be as pre-emptive as we can in identifying the impacts that those will have for us, and making sure that we adapt to our business to absorb them. And we've got really quite good at that.

I mean, we don't talk about a lot of the RWA inflation that certainly we've experienced, and I imagine other banks have experienced as well. But it's very substantial, and we've absorbed all of that, and continued actually to reduce RWAs. So, I'd say we've got a good track record of that, but it's all about being pre-emptive, and anticipating it well in advance.

The final thing I'd say is on capital generation. When I look at this year, we went from 9.1% to 10.5%, so 140 basis points. I mean that's after approximately £2.5 billion of conduct charges, and dividend payment of about £1.1 billion. You're getting close to £4 billion worth of capital deductions, which is getting to the best part of 100 basis points of CET1. So, I'd like to think that the capital generation ability of the company is also pretty good now, and a lot of that came from Non-Core. It won't be quite as extreme, but as CTA rolls off, you see our costs improve, underlying profitability improve, and that should take up the slack.

#### **Tom Rayner**

Slide 17, I think, sets out your Non-Core progression. Tushar, I think you mentioned Q4 is a better indicator of run-rate revenue. I'm assuming you don't mean the £22 million that it shows there? Are there any other issues in there to do with tear-ups and complicated things like that? And then on the right hand side of that slide, the costs, I'd like to get a better feel for how those costs run-off in relation to the revenue. How that is expected to work?

#### **Tushar Morzaria**

Yes, so on revenues, we said this in the third quarter, and you saw it in the fourth quarter; income will drop off quite significantly, as you've seen in the fourth quarter. And that'll be a feature of next year. I mean, in some ways it's kind of obvious why that is, we've sold a whole bunch of businesses, that are income generating businesses, will no longer be here. We've sold a lot of line item securities, and loans that are positive carry positions that will no longer be here. You've seen the capital reduce on the back of that. And you're left with, still a relatively significant derivatives portfolio which doesn't generate any income. The earlier part of 2014 was somewhat misleading because it was before the restructuring, and therefore there was new business being printed there. So that drops off to zero, and there's a slight funding drag, we're just carrying that derivatives portfolio. So I would expect to see much, much lower levels of income than you saw in 2014. And Q4 is probably more representative of what you may see in 2015.

In terms of costs we're not giving very specific guidance on costs, apart from the Group target. But we do expect to manage the dilution, or the drag on Group returns, [the drag on] Group ROE of between 3

and 6%. Now, obviously as income reduces that's going to be a function of a lower cost base, and a lower capital allocation as we continue to drive capital down, but that's how we should think about it going forward.

### **Antony Jenkins**

Tom, I know you've been quite a bear on capital requirements, so I did just want to make this point before we finish your section. When I took this job on in the summer of 2012, our CET1 ratio was 7.7%. So it moved from 7.7% to 10.5% in basically two and a half years. So, we think that the capital journey is well under way, if you like, and as we've said in our rather expansive comments on this particular topic, that we're confident that we can continue to build that capital to the requirement. So, we feel very good about that actually. I think we've now got a track record on capital.

Let's take a question for this side.

### **Michael Helsby, Bank of America Merrill Lynch**

Thank you. It's Michael Helsby from Bank of America, Merrill Lynch. I've just got one question - I just want to push Tushar a little bit more on the IB costs if that's all right. Firstly, what's the Core headcount in the IB? You've referred to the change, but you've never given us an absolute number before. And then, you helpfully listed a few of the headwinds that you saw in terms of timing, and legal costs. But, if you back into the ROE that you need to get to, assuming that the tangible equity isn't changing that much, you need to see absolute cost reductions of north of £1 billion. Is that what you're guiding us towards, to get to that cost? It's actually quite a bit more than a billion.

### **Tushar Morzaria**

Yes, so on headcount, we haven't disclosed headcount and I'm not a big fan of disclosing headcount simply because... take Group headcount, for example, that's down 5% but it doesn't mean anything because we insourced a ton of heads actually in Barclaycard, and you've seen how good their cost performance is. So, if I just talked about Barclaycard headcount, you'd have seen heads go up quite substantially, yet costs stay flat, and you'll all be scratching. So, headcount, it's an okay leading indicator, but there's much more stuff than headcount going in there. For example, we have a lot of focus in India, and again that's a totally different story to employing folks in Canary Wharf as well. I think it's much better just to talk about the absolute expense level that captures everything.

To your second question about how much costs need to be stripped out, you're absolutely right. I mean it would have to be in the kind of order that you talked about. I guess what I'm saying is a lot of costs can still come out. It won't be the complete answer, no doubt about it. We haven't talked about the operational improvements in costs. All I talked about is stuff that I can see rolling off, just because I know it's going to disappear. Let alone other improvements that we'll make. But we will have to

improve – as Antony says – the optimisation of all three levers to get the target ROE. And we see a path of how we're going to do that, and are committed to that.

### **Michael Helsby**

It's just when you look at your Core cost target of less than £14.5 billion, your ex-conduct is £14.9 billion today, and that order and magnitude that you need to do in the IB does suggest that the Bank's Core needs to be quite a lot lower than £14.5 billion.

### **Tushar Morzaria**

Assuming no other changes, yes. And as you know, revenues and capital. Revenues - we'll do the best we can and it will be hard to forecast them. But, we'll optimise on capital as well, and we'll have that lever available.

### **Antony Jenkins**

I think the important thing, Michael, is, if you know that our ROE target for the Core is greater than 12%, we were close to 11% ex-CTA last year. So, we think that the combination of the Core is easily going to get to that 'greater than 12%'. We think that the less than £14.5 billion is important on the cost side, and you know, I can't go on enough about how excited I am, personally, about the topic of cost reduction. Because it is something our industry just hasn't focused on unlike other industries, and we are getting that structural take-out of costs now across each of the Core units, which is already going to allow us to step down our total cost base, drive [down] CIR, and drive up the returns. Tushar's absolutely right on the IB. We've got a track to deliver that, but we're also very confident on the Core as a whole.

Let's take some more questions. We'll take one from this side please.

### **Fahed Kunwar, Redburn**

Hi, it's Fahed, speaking from Redburn. I guess one of my questions was on the Non-Core rump of the £180 billion leverage you've talked about. So, it seems the derivative exposure is the key determinant here. I'm just trying to understand what happened in the fourth quarter. Your RWAs in derivatives in the Non-Core stays flat, your PFE came down quite a lot, and it seems like your notional exposure came down quite a lot through compression. One of your peers show that compression kind of reaches a brick wall at the end, and novation becomes quite important as you're getting risk off your balance sheet. Is one of the reasons that you're not doing more novation because the cost will mean you move out of that 3% to 6% drag range on the Non-Core? Or, what is the outlook for that at the moment? Thanks.

### **Tushar Morzaria**

Yes, I mean they're two different things. So the RWA really comes from principally credit counterparty credit risk, so, uncollateralised derivatives. And leverage exposure comes from everything, your PFEs as you mentioned. So, to get leverage down you can do a lot of compressions, tear-ups, whether it's TriOptima or its bilateral, or it's any other form of cancels. For RWA you've really got to find counterparties that aren't posting collateral, and convince them to novate away. That costs some money, but that's not preventing us doing as much as we can. It depends on the counterparty's circumstances. Folks that don't post collateral don't typically mark to market counterparties, there much more structural positions for them, whether it's swapping them out of a bond issue, or whatever they're up to. And they're not used to settling trades on a marked to market basis. So, sometimes even a fee inducement isn't necessarily going to do the right thing for them.

But we use our Investment Bank's salesforce with access to go out and generate capital. That's a form of capital generation, we pay them to do that. So, they'll have the right conversations, the right ideas, and the right things for those clients. But it's absolutely not the returns strain that's stopping us to do as much of that as we can.

#### **Antony Jenkins**

Thank you. We'll take a couple of questions from this side please.

#### **Manus Costello, Autonomous**

Thanks. It's Manus Costello from Autonomous. I just want to ask about the future shape of the IB please. Because if I look at that business, it's increasingly on the Equities and the Investment Banking segments - and my understanding - that Barclays is overweight the US in both those areas. And so I was wondering, going forwards, how are you going to maintain that momentum in those positions, given the compensation restrictions that you're going to face relative to your key peers? And more broadly, Antony, how do you think about how that fits within the Barclays Group? Because having a high performing US advisory, and US equities business doesn't seem to fit with the UK retail and commercial bit of your business.

#### **Antony Jenkins**

Well, let me address that part of your question first. So, the way I think about the Group is that every component within the Group, the four Core businesses have to have competitive advantage, have to have capability, have to have scale, and have to be capable of delivering the returns that our shareholders seek. So that's the first point of strategy. The second point is, of course, together they also have to make sense as a set, because they may pass all the first tests that I described, but they could just as easily add more value outside the Group. So that's how we think about strategy.

Now when we think about the Investment Bank, there are clear connectivities between our Investment

Bank with some of our other businesses - so with our corporate clients, for example, who want to invest with banking business, with wealth clients and so on. But the important thing for us with the Investment Bank is this focus on the origination-driven business, the path that you referred to, Equities, Investment Banking and so on, where we can provide a service that our clients value. Now we expect to be able to continue to sustain those positions in the US and in Europe. You mentioned the US, but we're also a very significant player here in Europe. We think we can sustain those positions, and we have been able to find our way through the compensation issue. Again, this year you'll note that we were able to do that, even while bringing down the variable compensation level at the Group and the IB.

So, it is possible for us to craft that path as we talked about extensively a few moments ago. We do believe that the returns in the Investment Bank can be achieved, and that it makes sense inside the Group.

**Chris Manners, Morgan Stanley**

Good morning, it's Chris Manners from Morgan Stanley here. I had a question for you on net interest margins. I saw you were guiding to a flat net interest margin in 2015, maybe if you could talk us through some of the drivers of that? Because I thought that if Barclaycard is growing faster than the other retail and commercial businesses, and that's obviously got much higher margins so that should push it up a little bit. I'm thinking interest rates maybe pick up in Q4 if we're lucky, maybe next year, just your sensitivities of that, and also the competitive environment. Obviously, you know, new listed competitors trying to nibble at the margin. Thanks.

**Tushar Morzaria**

Yes, for margins, I think in the aggregate, stable, but there'll be things going on inside them. So we're probably seeing some pressures in mortgages, there's a lot of price competition going on there. But our mortgage share of that market has steadily increased.

Actually a lot of that is to do with the broker channels that we have running and the automation that we have, the ability to actually turn around mortgage applications through broker channels at a very high velocity has been a good thing for us and good for our relationship with brokers. So volume expansion, staying within our risk limits should offset some of that NIM compression. Card is very interesting - it's a very high-margin business. We're growing in the UK, but we're also growing outside of the UK as well. Now, in the UK we have tremendous scale. So, in that sense the efficiency of that business is extremely high. When you're growing in other markets, you don't have quite that extreme scale. So, you compound at a very attractive ROE, but you would expect that ROE to be lower than where the UK prints at the moment. So, on a blended basis ROE might nudge down, but you're still compounding profits in mid-teens territory, which is very attractive.

I talked about competitive pressures. There's good competition all around, but we feel pretty confident being able to grow our market share within acceptable levels. We're not going to grow much quicker than the market, but certainly quicker than the market and we've been able to do that successfully in pretty much everything that I've seen over the course of 2014, whether it's corporate, whether it's consumer, whether it's even actually savings liability balances, even current account balances. We talk a lot about account switching and everything like that, but look at our current account balances - they're up massively over the year. So the strategy is working well for us.

**Antony Jenkins**

We can take a couple of questions from this side, please.

**Peter Toeman, HSBC**

Hi, Peter Toeman from HSBC. Your RWA is up just over the £400 billion mark, which was your target for 2016 and you haven't updated us or given the new targets, which might have helped relieve concern about the capital position. So, are we to assume that items like trading book review are going to push up RWAs to compensate for the run-off of Non-Core and more efficient capital usage in the Investment Bank?

**Antony Jenkins**

No. I don't think you should assume that at all. I think we've been very clear that we see £120 billion of risk-weighted assets – about 30% of the total of Core that we've allocated to the IB as being a cap essentially – and so if there are more demands on risk-weighted assets, they will have to be accommodated inside the business model. As Tushar said, we've become quite adept at absorbing those changes as they come into play, but it will be very important – and it goes back to the return on equity conversation we've been having about the IB – that we manage the capital position because obviously that's a key lever for us. So, we're confident at the £400 billion for the Group, we're confident at the £120 billion for the IB, and we will absorb all we need to along the way.

**Tushar Morzaria**

Yes, I agree with all of that. The only other thing I'd add is obviously we've been reducing RWAs at quite a steady pace particularly in Non-Core. We'd like to reinvest those RWAs in our more traditional banking franchises, but you wouldn't expect asset growth to be as quick as that run-down. So, it wouldn't surprise me if there's a timing mismatch. We could run down perhaps a bit quicker than we can reinvest. We may bounce around at £400 billion or we may undershoot it and that'll be obviously capital-accretive at those points until we can put those assets back to work. So, you may see a little bit of that as we go through the year.

**Antony Jenkins**

Can we have the gentleman here?

**Chintan Joshi, Nomura**

Hi. Thank you, Chintan Joshi from Nomura. Two half-questions just completing what Tom and Chris were asking. So on Tom's question on the Non-Core, you don't want to talk about costs but you did give us some hints by saying, back out Spain, then 50-50 retail, non-retail, and I suspect the non-retail falls off faster and then the point here should be: Non-Core bottom line. Your impairments were much lower as well, so how should we think about the bottom line rather than revenues, cost, and all that interplay? And then just to complete Chris's question, the NIM in Cards started the year in the nines and ended the year in the low eights. I'm just trying to think if that exit NIM is something we should be thinking about as we look into 2015? Thank you.

**Tushar Morzaria**

So, on Non-Core, I know you'd love me to give you a bottom line sort of target, which I'm not going to do. And I understand why it's difficult, but the reason why it's not sensible for me to do that is important. We want to get through this as quickly as we can and we want to have all the levers available to do that, and that will be accelerating capital reductions where we can. It may even be incurring losses to accelerate capital reductions where we can. Spain is a good example where we can see good capital accretion, but it will bring our statutory profits down. We should reserve that optionality to get through this as quick as we can. That's in the best interest of our shareholders. As soon as I pluck out exact targets of say, expect the loss before tax to be 'here', then I'm limiting and I'm constantly then having to re-guide you and update you. The only thing I'll say is income will drop off. You're beginning to see that. We will stay between 3% and 6% and we're going to try and get through this as quickly as we can and I'll leave it at that.

In terms of Barclaycard, NIM did come down a little bit. Some of that was just a very slight revision that we've made to effective interest rate calculations in the fourth quarter, which changes income a very modest amount. That obviously has an impact on NIM. NIM is just an arithmetic calculation, so I wouldn't read too much off that sort of down-drop, but what I would say is that underlying NIM levels for Barclaycard are broadly stable. We continue to expand the business outside of the UK. I mentioned before that the non-UK business is a really attractive business with high returns but not as high returns as the UK. So, profitability goes up and growth is nice, but you wouldn't sort of see that translate into an improvement in NIM.

**Chintan Joshi**

So, within the UK business and within the US business, NIMs are broadly stable. It's the interplay in the mix...

**Tushar Morzaria**

Generally, yes. Now, that's assuming a broadly stable rate environment, which I think someone else asked earlier. At the rate the environment changes, we'll update you.

**Chintan Joshi**

Thank you.

**Antony Jenkins**

Let's take a couple from this side, please.

**Andrew Coombs, Citigroup**

Good morning. It's Andrew Coombs from Citigroup. Perhaps first I could just complete the last question. In terms of the Cards outlook, could you comment on the interchange fee caps coming in probably this year and certainly by next year? And then my follow-up question would just be on the 1Q outlook you've given for the Investment Bank. You talk about approaching the levels from last year. Perhaps you could just talk a bit about the trends between macro, credit, and equities within there. Thank you.

**Antony Jenkins**

So, if you take the second question, I'll just deal with the interchange caps. Actually, lending in Barclaycard here in the UK is a lending business and we're less dependent on the interchange rates. We don't have a lot of high interchange products like some of our competitors, so we think that that is an absorbable number for us and we've had it in our medium-term planning. So, it shouldn't make a tremendous difference to the business going forward.

**Tushar Morzaria**

Yes. Andrew, I'm not going to say much more on outlook than was written, so I probably won't really be able to answer your question. So, leave it at Q1 revenues will be better than Q4. Everybody would expect that, the only thing we did talk about was a strong investment banking pipeline and that does feel pretty good. The calendar looks pretty reasonable now. With capital markets activities, deals need to print and markets need to hold up, so it's very hard to extrapolate too far forward, but the calendar and the pipeline does look pretty good, so we should get approaching Q1 2013 levels in the aggregate. I'm not going to give you more colour on individual asset classes unfortunately.

**Arturo de Frias, Santander**

Thank you. Arturo de Frias from Santander. One more question on Non-Core, please. You were answering to a previous question that you want to reserve that optionality of selling quicker and taking more provisions in order to do so, but I was wondering whether that's an optionality or you are going to

be nearly forced to do that, and I'm asking that because of the increasing capital intensity of the risk-weighted assets that are left in the Non-Core division. As you sell Non-Core, the percentage of capital versus RWA or the CET1 that is in Non-Core is going up. Now we have £75 billion of RWAs, £11 billion equity - that's probably slightly more than 15% capital ratio on those assets, which is going up. That obviously could suggest that the quality of the assets that remain are [such that, it becomes] more difficult when it comes to selling them. So, I would like to hear your views in terms of, do you think you will need to provision more heavily in 2015-16 in order to run down Non-Core? And if you think you have to, would you be willing to do so or would you choose to not punish the short-term P&L because you think you will recover that equity anyway? I mean, those £11 billion of equity are probably worth their weight of gold right now given the regulatory environment. So, I guess that balance between provisions and capital is very important. Thank you.

### **Antony Jenkins**

So, let me start to answer your question and then Tushar can add some colour to it. Firstly, we are very confident of the track in RWA reduction down to what we initially communicated as £50 billion of risk-weighted assets in 2016 – now £45 billion adjusted for Spain – and we have that track pretty much laid out. We don't think that that will require us to take a very significant increase in the level of provisions to deliver that. On the other hand, if opportunities present themselves to us which we think will help generate net equity as the Spanish transaction did, then we'll look at those issues very carefully because at the end of the day this is all about the economics and you're correct to say it's about the risk-weighted assets, it's about the equity consumption, and it's about the drag on the ROE. So, we will move those dials, if you like, to deliver the best outcome that we can for our shareholders and there are certain advantages to us in running this down faster beyond the economic; particularly for some of the intact businesses that we have in that unit. So, we're very focused on it, we're focused on getting to that £45 billion, we've got a good track to deliver that, and where there are opportunities to accelerate that, we will look at that very seriously.

### **Tushar Morzaria**

I'd agree with that. I mean, we're just economic animals, so we'll continue to do the right things as a straightforward economic analysis. Just coming back to your point about how you think of the CET1 ratio in Non-Core, don't forget there's deductions as well. So, it's not as simple as allocated equity over risk-weighted assets at times, 11% or something like that. There are assets in there that require capital deductions. So, whether it's prudential valuations, whether it's expected losses over impairment, and various other deductions as well, and that's something we're very focused on. You can actually sometimes release more equity without any top-line risk-weighted asset reductions. So, the equity allocation removal is really a slightly more complicated concept to think about, but it's the right concept. It's not just about RWA reduction. We can remove assets with very little RWA impact but a lot of deduction benefit and that's potentially worth more than just hitting an RWA target.

**Antony Jenkins**

We still have time for one more question. We can take the one here.

**Sandy Chen, Cenkos**

Hi. It's Sandy Chen from Cenkos and firstly I wanted to thank you for publishing the full Pillar 3 document and the full Annual Report and Accounts as well. My question is really a follow-on to Manus's question with the Investment Bank. On a return on RWA basis it looked like last year, the return on RWA was about 34 bps where any hurdle I would imagine you're setting has got to be 100 or maybe 150 bps of return on risk-weighted assets. And, it's an 82% cost-income ratio business right now, but actually within that, is there an Equities business and Advisory business that's running at, say, 60% cost-income ratios covered up by a Macro and Credit business that's running at far higher cost-income ratios? It certainly feels that way from the sell side, I must say, and could that then lead you to a point of being really quite radical in change with entity-level disposals within the Investment Bank?

**Antony Jenkins**

We've been very clear. We're running the Core business to deliver greater than 12% ROE. Each business within the Core has to deliver its own piece of that. Three out of four businesses are there or thereabouts. With the Investment Bank, it will have to deliver 12% ROE through the cycle. That is our goal. We will do whatever it takes to optimise the levers of capital, cost, and revenue to deliver that. We think we are on a path to do that for the reasons that Tushar described, but we won't hesitate – as I said – to take whatever action is necessary to get to those returns and I think I'm going to leave it there on that point.

Ladies and gentlemen, I just want to say thank you very much for coming today. I regard 2014 as a year of very substantive progress on our agenda of building the 'Go-To' bank. We are well on track to deliver the 2016 commitments. We intend to deliver those. Thank you very much for your time and attention today. Thank you.

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