Barclays PLC
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FY 2015 Results - Sell-side analyst breakfast transcript

(Amended in places to improve readability only)

Jes Staley, Group Chief Executive Officer

Thanks for coming this morning and hearing our story. You probably heard this either in press clips or if you listened in the other day, but what we're trying to do is to simplify Barclays' business model, and clearly to continue to be competitive on an international scale. We've looked at our Core franchises and essentially we've come up with a business model building a transatlantic bank that's got a consumer, corporate, and investment banking footprint to it, anchored in the two financial centres of New York and London.

For sure, on the consumer and corporate side we've got businesses that are doing exceptionally well; the Retail Bank in the UK is generating good, solid, double digit returns on equity. I think we are deploying technology in a very strong fashion. I think in many ways we are leading in terms of using technology to improve the profitability of where we are in retail. It's just a very strong franchise and you add that with where we are with small business banking, where we are with wealth management, it's just a very powerful franchise and it is the anchor for Barclays today.

In addition to that, on the consumer side we have a credit card business that is everyone's darling child right now; it's got a return on tangible equity in the 20s. We obviously have done extremely well in the UK being the largest issuer here. We've built quite an impressive franchise being the number one credit card issuer in Germany. I think very interesting for us is, we've built a very strong presence in the States now, coming out of Wilmington Delaware we're the fifth largest co-branded card issuer in the US. I've spent a lot of time with a number of the CEOs of companies where we are co-branded, such as American Airlines and L.L. Bean and others, and the reputation we have there is really quite outstanding. We've also been able to tie that into building a mini-consumer bank and actually in the United States today we have about $8 billion in retail deposits on that bank, which is a completely digital bank. I think a lot of interesting opportunities for Barclays going forward to develop that out.
And then you have the Corporate Bank which has done extremely well, also very profitable; very strong footprint here in the UK. But then a very strong footprint as well with all those multinationals that deal in the UK, whether it's an IBM, whether it's McDonald's. This is a very profitable business for us and I think we're very good at it, and it ties together a lot of the operations and technology that we use for retail and that we use for the institutional bank.

And then we have our bulge bracket Investment Bank; now investment banking as an industry, as everybody knows, is challenged. It still has not really recovered from the financial crisis of 2008. We have taken our risk weighted assets down by half; I think we have made the move on risk weighted assets that a lot of European banks still need to make but we're not done on the expenses side. So we are going to drive this business to improve profitability and we will do that and that's something that I look forward to doing.

The really tough strategic move was the decision in Africa; it's a place where Barclays has been for over 100 years. The brand power of Barclays in places like Kenya cannot be understated. But the economic structure of our ownership there, where we only own 62% of the publicly traded company in Johannesburg, is very challenging, because on our side here, given things like TLAC, G-SIFI buffers, and bank levies, all the calculations assume that we own 100%. So if you have the cost of 100% consolidation and only 62% of the earnings, and you put on top of that an applied cost of capital for an emerging market like Africa, it's difficult to make the maths work. So what we announced the other day was to take the position in Africa down to a de-consolidated, non-controlling stake, and do that over the next couple of years. The market has the depth to absorb that. I think there's going to be quite a bit of interest. If you look at how Barclays Africa [Group Limited] stock has responded since the leaks, and then since the announcement, it's actually done quite well which I think is reflective of the fact that the market agrees with us that there will be quite a bit of demand for that transaction.

And then we all have to believe that we are coming towards the end of the restructuring of the banking industry post the 2008 financial crisis. If you believe that we are coming to the end of that, and you look at our Core franchise, it's fairly simple to do the maths. If we can close our Non-Core businesses, and we are fully committed to doing that in 2016 primarily, then we have a Core franchise today that generated in 2015 a 10.9% return on tangible equity. You earn above your cost of capital and your return on tangible equity, and you know what the stock price will do if we can execute that. So the real issue to a pathway for a significant improvement in our stock price is to roll back the Non-Core expenses and the Non-Core assets. To give ourselves unfettered ability to do that, we made the move on the dividend. The calculation is very simple for us; by reducing the dividend by 3 pence a year for two years, if that enables us to get Non-Core essentially off our books, the shareholder value created by that, it's not even a question mark. Clearly this is the intelligent thing to do to increase or to improve total return to our shareholders, and that's what we intend to do. So appreciate all the time and attention, you'll get all the
facts and figures and the better explanation of this from Tushar but I did want to welcome you all this morning to Barclays. Thanks.

**Tushar Morzaria, Group Finance Director**

Thanks Jes. So why don't I just add a couple more comments to that, just to remind people of some guidance that we gave earlier this week. There's a lot of information we put out; I just want to make sure I've got one more chance to just remind people what guidance we put out and then we'll go straight into the usual format of Q&A.

I think first and foremost just to re-emphasise a couple of Jes' points; the whole purpose of this is to complete the restructuring. I think of it as the last chapter of this restructuring that we began in May of 2014, most of which will happen in 2016 so it will be a very busy year for us in terms of dealing with some of the issues in Non-Core, and a far less significant impact that Non-Core will have on our Group position in 2017.

Second thing I'd just want to re-emphasise is that our Core business, EPS, and RoTE, we do feel pretty good about. Obviously Africa at some point will leave that Core business; that's a little under 2 pence of EPS; we printed 25.7 pence of EPS in the Core business last year. We're confident we can more than make up for that, and you'll hear as you get to know Jes more and more, that he's going to be prioritising returns more and more as his number one priority. So we have good confidence in our Core earnings and the EPS generation and RoTE that will drive.

What gives us that confidence? Of course the revenue environment will be somewhat unpredictable, but we'll continue with the cost control that we have in the company. We continue to expect Group costs to be continuing to come down as they have done now for three years, and they'll come down again and continue to come down in 2017 and beyond.

Capital productivity is an important one; you've seen the numbers in the Investment Bank and I'm sure we'll get some questions on there. But the ability to be much more efficient in our use of capital and still generate better levels of profitability is something that's a continuing trend. And in our more traditional banking businesses, whether it's Corporate, whether it's current accounts, whether it's credit cards, or business banking... just throwing those four out, our market share continues to hold and actually improve in most of those areas, and those are the core bedrocks of the company so I feel very good with that.

In Non-Core I mentioned it's a very heavy restructuring effect in 2016, less so in 2017. We of course would like 2017 to be the last year in which we have a Non-Core unit in place, and that's really what we're driving towards but we'll see nearer the time, as we get there, as to whether that's the right time
Getting into some of the more specifics; in the Core, in terms of how you'll see this prospectively, I'll just cover the accounting effects of this because it's a little bit unusual. So we still need to work this through with our auditors of course, so it's a little bit of a leap of faith pre-empting how our auditors may think of this, but now that we've announced the intention to divest of our African operations, it will be reported and accounted for as a discontinued operation. So that actually drops out of our line-by-line consolidation into a single line item; it actually goes after profits before tax. If you look at pre-tax earnings now it will actually fully exclude the effect of Africa. And it will get accounted for on what we call 'Held for Sale’, which essentially, in real simple terms, is the marked to market of the value of our investment through that single line item in our P&L statement. Think of it like where we have minorities and things like that at the moment, so it's below the pre-tax earnings line. On the balance sheet it's just consolidated on a single asset line and a single liability line as well, so you don't get it flowing through individual line items.

As a regulatory matter, essentially nothing changes. So risk weighted assets and for leverage ratio etc. think of it as it is today – just a full-on consolidation. Regulatory de-consolidation; there's no numeric test for this, it's a qualitative control test. Our expectation is that somewhere below an ownership level of 20% is when we start getting more ticks than less ticks in terms of how those tests are applied. So I can't tell you it's going to be 19% or 15% or 17%, but somewhere below 20% is where I think there's a reasonable chance of a regulatory de-consolidation. I guess as we get nearer to then we'll try and give you more specific guidance, but the financial accounting will feel as though it's de-consolidated already.

The other thing in Core of course, we're making a perimeter change, so £600 million of costs leave the Core business and go straight into Non-Core. We did get a question on Tuesday about what's the revenues associated with that – we haven't given specific numbers on revenues, but it's a reasonable assumption to assume these are all, broadly speaking, break-even type businesses, so not very profitable. A similar number in revenues is a reasonable assumption.

In terms of costs, we've given you a bridge of how we take our £14.5 billion in our historical definition of Core, and how that translates to £12.8 billion in our new definition of Core. The most important thing there is probably – it's the first time we've done this – we've called out the FX component effectively in Dollars because we lose the diversification in Rand. To date, even though Dollar has been good headwind in the sense of Dollar strength, though it inflates our cost base of course, we've been able to get some diversification benefit from the Rand. Well we lose that now, so we'll call that out specifically. Of course if our revenue environment isn't as good as we think it is, or is expected to be, then like in previous years we'll continue to drive down costs even harder, so that's something we'll continue to talk about over the course of the year.
I mentioned EPS and RoTE. Investment Bank risk weighted assets; so we closed the year at about £108 billion, there's a little bit of seasonality in that, it's probably a touch lower than you would normally expect in any one quarter, trading book activity slows down in the last week or so of the year. That's also actually a very low print for us because one of the things that doesn't jump out from that number is the fact that there was quite a strong Dollar, so it inflates when you translate back into Sterling. So compared to the £120 billion limit it's actually, on a like for like basis, substantially lower than even the £108 billion that we printed. It will come back a little bit in Q1, but we don't expect it to grow significantly; it will bob around, seasonal fluctuations, and we'll continue to keep the discipline around good utilisation of that.

Non-Core guidance, so some important numbers here. We do expect negative income in full year 2016; think of that as a reasonable run rate of fourth quarter 2015, for a full year effect. So we had a little over £200 million in losses in the fourth quarter; think of that on an annualised basis as a decent expectation for negative income in 2016. There's one addition to that which I don't think came out that strongly in the call, and that's the fair value move in ESHLA, and I'll come on to this a little bit later. It's a little bit technical but I think it's worth getting the explanation on it. It is variable, it can be quite significant, you saw we drew £156 million or so down in the fourth quarter and I explained where that came from. I expect another meaningful negative in Q1. It actually does depend on where markets close on 31 March but I'll explain to you what's driving that. That will be a more variable item; that could be very positive in fact in subsequent quarters so I can't predict where that will go. But the little over £800 million or so annualised is excluding fair value moves in ESHLA as I say, that could be positive or negative, either side of that, and I'll come back to what's driving that.

The second thing, we did give cost guidance in Non-Core; £600 million as a perimeter switch, a £400 million additional restructuring charge, so think of that as an additional £1 billion that we've guided to going through the books of Non-Core on an annualised basis in 2016. We expect the bulk of those costs – the restructuring part of cost is non-recurring so that won't be spent again in 2017, and we expect the bulk of the £600 million – to be exited during 2016, so it gives you a sense of the heavy restructuring that we'll be doing over the course of the year.

Risk weighted assets is re-affirmed even though the perimeter top-up was an increase of £8 billion. We've re-affirmed we should expect to be at around £20 billion by the end of 2017, and that will be an important point for us to reach.

On capital, we accreted the CET1 ratio obviously in 2015. We do expect 2016 capital levels to accrete again as we've done consecutively for a few years now, but Q1, there's some seasonality again here. A little bit of what you're hearing is Jes wanting to prioritise returns as much as just accretion of capital for
the sake of it, we feel like the capital position is in actual reasonable shape. So we may go backwards a little bit on capital in Q1; really a seasonal thing, but from that point on you should continue to see capital accrete up nice and steady.

In terms of end-state targets, we gave a view of what the stack may look like at the end-state; There are some heroic assumptions around there, what Pillar 2A will be, what our G-SIB surcharge will be, what counter-cyclical buffers may or not apply, of course all of these are variable. I don't know what they'll be in 2018, 2019. But it's really to illustrate how we think, were we to be in that environment as of the end of 2018; what total capital level, or CET1 level, we should be running. And we think about 100 to 150 basis points above that is sufficient to go nowhere near any MDA levels and also stay well above any Bank of England stress testing requirements that may be in place. Obviously it's going to be a little bit driven by the actual stress tests themselves, but we feel that's a reasonable place to be in and we should get there in pretty good time.

Dividends, again Jes talked about the actions we’ve taken on dividends. Now there's the combination of dividends and of course the divestiture of Africa which is very capital generative. And although we didn't give you a specific number on how much capital we’ll accrete as and when we divest of Africa, it's a real simple calculation. I've seen some of the numbers you guys have been doing for yourselves; you're calculations are fine, you just take out the risk weighted assets and figure out what purchase price you get for the stake, and it's straight arithmetic there.

Having said that, the capital benefit from Africa is very back-loaded; you only get it on the very last tranche when you de-consolidate the position. If you do it in one shot, of course you get it immediately but if you're doing it in stages you have to wait until you de-consolidate. You don't get any real capital benefit until you de-consolidate because the risk weighted assets won't leave your regulatory risk weighted assets until you de-consolidate as a regulatory matter – so it's very back-loaded. So the benefit of cutting the dividend is of course a more front-loaded capital benefit.

In terms of dividend beyond 2017; the point that Jes was making really on Tuesday was that if you're confident, and we are confident, that we can wind down the Non-Core and fold it back into the Core, you're confident of the earnings EPS generation of the Core – 25 pence or so on 2015 numbers – and you believe our capital position should be well underpinned, which again we believe it will be, then we should be in a position to pay a very meaningful proportion of our earnings out as dividends. That's not a prediction or a policy statement because 2018 is 2018 of course and who knows what will happen between now and then, but that's how we're thinking of it. So this isn't something that we don't have confidence on, but we'll continue to guide as we get nearer the time.

One other final thing, it came up on the fixed income call, some of you may not have necessarily
listened in to that, but we did talk about a reasonable planning assumption for risk weighted assets for the Group and Dan Hodge, who's here, our Treasurer, guided towards. This isn't a target or how we're going to run the company, but at least for near term, somewhere around £360 billion is a reasonable level, which is actually quite similar to where we closed the year.

In terms of where we go forward from here, of course Non-Core should run down, Africa will stay with us until we de-consolidate, that will be when it will be. As we run down Non-Core we'd expect some growth in our traditional banking businesses; we would like to grow our corporate banking business, we'd like to grow our card business, etc. so you'll see that capacity created out of Non-Core run down to fuel some growth in our traditional banking businesses. Exactly how they'll offset each other will really depend on our risk capacity, or risk appetite I should say, as we've got plenty of risk capacity, and how the markets are running for that. But those are businesses we would like to grow.

Tom Rayner, Exane BNP Paribas
Thanks very much, it's Tom Rayner from Exane BNP Paribas; could I just have two questions please? Tushar, one fairly quick one; what's going on in the fourth quarter on the tax rate between the Core and the Non-Core? It seemed at the nine month stage it was running at about 28% in Core and then it dropped to sub-seven I think in the fourth quarter and there was an offsetting issue in Non-Core where we would have expected a bigger tax offset to the losses, so I just wondered if you could clear that up for me please? And then the more substantive question is on the strategy – Jes has just set out that dividend cut funds a faster run off of the Non-Core, that drives the higher rating; I guess that's only true if the NPV of all the future costs and losses that you would have incurred is somehow brought down by the acceleration, and I'm just trying to get a better feel for why that might be the case and when we get to 2018, assuming that Non-Core is gone by that stage, are there any residual cost issues then which obviously will be automatically part of the ongoing business? We've discussed this before but I'm interested in an update on your thinking on that whole issue. Thanks.

Tushar Morzaria
On the tax rate, again to help you a little bit, quarterlies are always a bit complicated for tax because we've got revaluations, deferred tax assets, and various other provisions that we make in our tax line that can make it a little bit messy on the quarterlies. Perhaps what's more helpful is what the 2016 tax shape should look like. I think someone may have asked this question, or a version of this question, on Tuesday. Think about the Group tax rate to be in the low 30s; I'm giving you an underlying tax rate. If we have very significant conduct charges that aren't deductible, our statutory tax rate can spike up as it was in 2015 where it was about 70%. But underlying tax rate, excluding, if you like, those non-deductible conduct related items, think of that in the low 30s. And think of that as a reasonable planning assumption for both Core and Non-Core. It was a little bit different in 2015 where there was very little tax shielding benefit in Non-Core. Again, it's wrapped up in the way our deferred tax assets
and provisions were running through in 2015. In 2016, I think it's going to look much simpler so expect a low 30s on both sides of that if you like.

In terms of strategy, to answer the latter part of your question perhaps is the crux of where you're getting to; what do we expect to be folding back at around the end of 2017? I think the issue here is going to be not really risk weighted assets but probably more the negative P&L which will really be costs by that stage running through the P&L statement. And in my mind that has to be... I'm not going to give a specific number, but small; ‘small’ defined as it should have little impact to Group returns when you fold it back in the first year of folding it back. Now we've guided in the past, pre these perimeter switches that we thought we'd be at about £125 million a quarter in the fourth quarter, first quarter of 2016/17, exit rate if you like into 2017. You would expect on that perimeter definition costs to continue to drift down over the course of the year, so if you then think about what it might look like at the end of 2017 it should be running lower than that. That feels to me like quite a manageable cost base that you would then just fold back into the Core and continue to drive the Core costs down in the aggregate. That's how we're thinking about it. I think when we get towards the end of this year we'll give you a bit more visibility on how 2017 would look like and perhaps what the shape of that is.

Michael Helsby, Bank of America Merrill Lynch
Thank you; it's Michael Helsby from Bank of America Merrill Lynch. I've got a few if that's alright. First of all you touched on it in your remarks actually, which is the ability to drive out costs if revenues are more disappointing. So I think given the IB revenue outlook, I was just wondering if you could talk a little bit about what revenue landscape you are foreseeing for this year, and therefore what's driving your cost base target for 2016? Second question would be, I appreciate what you're saying on the buffers etc. but could you give us, if Africa had been outside of the Group in 2014, when the last G-SIB was calculated, what would the G-SIB add-on have been then? Then third question would be on the capital position; I tried to ask the question at the analyst presentation but I think most of us, or certainly I was struggling with it; once I look at all the actions that you're doing on capital it's not obvious that you actually did need to cut the dividend. Now I appreciate why you have cut the dividend, but it wasn't obvious that you needed to, so there was a gap in profitability. So is that a genuine gremlin, so to speak, or is that just flexibility that you're retaining? And then finally just on Africa, on that accounting change, can you just talk about that a little bit more? So when you say it's marked to market does that mean you need to take an assessment of the value today and book that through? So there's going to be a book value adjustment today, whatever it might be, it might go up or down. And then going forward you're literally just going to take the share price and flow that through the P&L on a quarterly basis? Thank you.

Tushar Morzaria
Okay, well let me do it in the order in which you asked them. So first, cost flexibility and I guess what you were really asking is what outlook do you have for investment banking revenues. That's a tough
question, what the outlook is for investment banking revenues.

**Michael Helsby**
Not so much the outlook, but what outlook have you factored into your cost base?

**Tushar Morzaria**
So what we haven't assumed in our cost base, particularly in the Investment Bank, is any growth in revenues. So if we get better revenues, that's great but we're not expecting, at least as a cost planning assumption, to get growth in revenues. And a good example of that is maybe 2015 where Investment Bank revenues ended up actually literally flat, more by coincidence than any prediction, but costs were down 5%. If you just look at the cost line down 5%, Dollar strengthened and so it's actually down a little bit more than 5%, so we feel good in our ability to continue to drive the cost base down without any significant impacts to the revenue, somewhat market dependent, obviously. And I think we will continue to do that. Obviously we lowered comp in the IB last year, that will flow through again, just like it did the previous year, and you could literally see that run through the accounting line as a page in the Results Announcement, 36 or so, that literally shows you that reconciliation of the amount of what we call 'value at award', the actual bonus pool we announced and how that's accounted for during the year and how that stacks up. So you'll see that benefit run through.

And there are continuing cost programme actions going on, whether it's in our infrastructure space, whether it's in our technology space. I think this is one of the other things you'll see Jes do more and more of. Under Anthony's leadership we created a Personal and Corporate Banking division, well we're going back to perhaps a more traditional corporate and investment banking division. And I think you'll continue to see synergies that'll drive up, be they in our banker coverage model, be they in the way we manage the credit portfolio etc. so those are new opportunities that we should be able to get hold of on top of the existing opportunities around infrastructure, technology deployment, office footprint, etc. So what we can't do, unfortunately, here, and it's really an accounting thing, is variable comp; when we do change variable comp, it doesn't affect the current year, that's the only thing. We have thought long and hard as a company, and I've got close to the point of recommending... we can change our variable comp documentation in how we pay employees that has virtually no impact to them, but it does allow us to account for it in the current quarter. Of course all that is to us is a capital hit; so I'd have to front-load all deferred comp as an accounting matter, no more cash going out of the door, just as an accounting matter and that comes to just managing the capital position of the company. So we could do that and I know Jes would be very keen on doing something like that.

In answer to your other question about capital; there's no gremlin or black hole that we're not telling you about, at least we don't think so, but these kinds of things do give us flexibility. Another thing we'd love to do is real estate; we'd love to start shrinking very expensive real estate in London. That will
require potentially very sizeable write-offs in terms of leases and what have you. That's a really sensible thing to do, a very economic thing to do, it's all about managing our CET1 ratio and we've been quite reluctant to do anything other than slowly accrete capital every quarter because we started from such a low base. This gives us flexibility of not having to go too far backwards, but doing what we think are very RoE accretive transactions. Another good example may be liability management exercises, which we have done in the past – we actually did another one on the day of the results announcement. Those kinds of things are just opportunities available to us that we wouldn't otherwise have. So that's really what's going on in our capital line.

G-SIB we got very close on actually. In fact Dan will probably know the numbers exactly. I think it was 20 points. So just take one step back; stop me if this is all something you already know. It's a very numerical calculation; everybody submits their numbers, it's a relative calculation on I think 16 or so measures, you get a relative score and then you slice up those to each bucket. To go from 2% to 1.5%, our score needed to be below 350 I think, and we were just 20 points above that, approximately. That was using December 2014 numbers; we've submitted December 2015 numbers, so for all I know we might already be in the 1.5% bucket. We actually won't know until the end of 2016, it's a one year lag of the Basel Committee replaying those calculations back, so for all I know we could be down. I think we ought to get down a bucket, you can see how we've drifted down that calculation. It's a bit of a foot race because it's a relative calculation, so if every bank is de-leveraging in the same way we are, everybody stands still. So you've got to go faster than your competition.

Michael Helsby
Would Africa have dropped you by those 20 points that you require?

Tushar Morzaria
I think it would have done, but again, I don't want to make the point that we're betting on just Africa happening to drop us down. What that should do is give us even more confidence that we'll definitely get down; I think I'd like to get down even with Africa in. It's not a commitment, I can't predict what other banks are doing; we're all trying to do the same thing. But given we're so close with Africa, and that was over a year back, and we took out a tonne of risk weighted assets, a tonne of leverage and everything, there is a chance we may be down already. All Africa will do is then push us even further down in that one and I guess we look for the next attachment point and see how hard we have to pedal to get there.

Africa accounting, it is kind of what you said; so on day one, really all you're doing is you're taking the Johannesburg listed stock price and multiply it by our shareholding, and that's the value of your investment. And that's a day one change in the value of your investment - the book value that you're carrying versus the prevailing fair value. And changes in that fair value go straight into, before profits
after tax and after profits before tax as a financial reporting matter. There's no capital effect on day one, so there's no massive CET1 draw or anything like that on day one.

Michael Helsby
[Do you expect a writedown to the carrying value on day one?]

Tushar Morzaria
We've got plenty of goodwill to absorb any [reduction in the value of our investment]. And of course there is FX rates and Rand [to consider]. But at the moment, if we were to do that now, there would be no change in CET1 levels...

Michael Helsby
[Do you have the market value of Barclays Africa Group Limited in Sterling?]

Tushar Morzaria
I don't have the number off the top of my head. You could probably work it out as quickly as I could. Take whatever today's Rand rate is, take the FX rate, and then multiply it by the number of shares; it's no more tricky than that.

Michael Helsby
Do you know what the carrying value is?

Tushar Morzaria
[The IR team] can help you work it out. It's not a particularly difficult calculation, it's pretty straightforward, and then you can just run it through your models.

Manus Costello, Autonomous
Can I just question this assertion that all you need to do is have the Non-Core fall away and then you'll be delivering your 10.9% return on equity in Core. Because that 10.9% is struck on a lower capital level than your target capital level if I'm not mistaken, and it's also on a 25% tax rate. So actually isn't it more likely that we see the Core returns go down once you properly allocate things and have a proper tax rate, rather than going up? And that's even before we start thinking about a difficult IB environment, about Africa going away and being dilutive to that. So you've presented this world in which the 10.9% would be fine, but the way I look at it, it's going to look worse in the medium term.

Tushar Morzaria
I don't share that view, I do think we'll be able to grow [Core RoE]. The EPS generation of the Core, even when you take out Africa, I do believe we'll be able to grow that; underlying in more our traditional
banking business which is easier to forecast prospectively. For example, even take the mortgage margin pressure which we've had in PCB – we've excluded the US Wealth business which essentially generated no income at the point at which we announced that sale; the financial advisors booked their new business onto the new platform and the costs stayed with us. Even in that environment we were able to increase profits in PCB by 5%, and more than that if you look through some of these effects.

Card profits grew nicely; it won't grow at anything like the pace it has done, because a lot of that is just additional portfolios in the US getting a full year effect. So I am confident that we'll be able to grow those bedrock traditional banking businesses. And then on top of that, I do think we'll get more and more operationally efficient as well. I think we've still got more work we can do in the IB, we're not done on that yet. IB top line, I agree with you – I don't know exactly what it will be in 2017, 2018, 2019. If it's a weak capital markets environment, I guess we'll ebb and flow with that. But I am confident that the dilution effect of Africa, I do believe will be offset.

The tax rate, I do think it's a reasonable planning assumption. So you're right that any one year's tax rate will have its [one-off elements] if there are some write-backs from previous [years] or whatever, but a general planning assumption in the low 30s is a reasonable thing to hold. The thing that moves that, of course, quite materially, is the bank levy, and as the bank levy declines as we get closer to 2020, the non-deductible nature of that declines. Also within the Core business, we do put through fines and settlements that aren't significant in nature individually – it's only the big ones we leave below the line. They do have a non-deductible component to it, so that in and of itself is slightly helpful to the tax line, and also the legal fees drop out with it. So I am confident that the EPS generation on that call will offset, if you like, Africa dilution and provide capacity to absorb what's really stuck in Core at the end of 2017, which should be quite small, so it absorbs that. And the Group as a whole still looks like a reasonable returning Group. I can't be precise on exactly what level that will be, obviously.

**Manus Costello**
When are you going to change that capital allocation, because I think you're still using 10.5% for the divisions?

**Tushar Morzaria**
We'll use 11% from this year and we'll step it up as we go forward. If we're operating at 12%, then we'll immediately step it up to that but we'll do it in steady increments.

**Ed Firth, Macquarie**
Can I just ask you about the £50 billion of risk weighted assets that I think are your core markets capital allocation; the market risk.
Tushar Morzaria  
It’s a bit lower, but go on...  

Ed Firth  
Yes, I suppose it’s more a strategic question. Did you decide on that number because you can’t actually get it lower without excessive costs?  

So I’m talking about the size of the Investment Bank going forward and how you’ve decided to leave it where it is – I guess you’ve taken the £8 billion out, but other than that, broadly its where it is. Did you decide on that because to get it any smaller you felt the cost would be excessive, and that there’s something in there which means you can’t actually reduce it quickly? Or was it actually a decision on a blank sheet of paper that you decided this is the right level, when you could have made it smaller if you wanted, but you just felt that that wouldn’t be right?  

Tushar Morzaria  
Yes, I think it’s a combination of factors. So just to make sure I’m on the same page as you, the £50 billion you’re referring to is when I talked about the markets risk weighted assets – excluding operational risk from there which is a fixed component so very hard to move – and you’re left with counterparty credit risk and market risk, which is about £50 billion, a touch lower than that in fact.  

And the answer to your question is multifaceted. One is, in my mind what we are really trying to construct is a Core group, the future, if you like, of the company in a tangible timeframe that can earn a double digit return – I’ve always used the words, double digit, though hopefully better than a double digit – but a double digit return through a cycle, using that portfolio and collection of businesses so that inside, we’ve got the capital allocation to allow us to go through cycles and still earn reasonable returns in each year of the cycle and over the cycle.  

The second thing is, how small can you run down certain businesses before your revenue drop-off is quicker than your capital drop-off, so you’re diluting yourself? And in our judgement, roundabout £50 billion of variable risk weighted assets for our markets business feels about right in terms of the potential returns we can generate, even at low points in the cycle, and the contribution that it makes to the Core group. And also if we were to shrink it further, whether we’re just diluting ourselves rather than enhancing the returns of the Group. It’s a judgement call, but that’s our judgement around that.  

We’ve brought the markets risk weighted assets down massively, absolutely massively. If you look at the total Investment Bank, probably my first quarter I was here, in the fourth quarter of 2013, it was about £220 billion. I don’t know exactly what the markets risk weighted assets component of that was, but the loan book hasn’t changed that much. So the bulk of those reductions have been in the markets
division. That’s massive, it’s huge amounts of risk weighted assets; I don’t want to quote a number as I haven’t looked at it recently. So that’s a lot of deleveraging, and we feel we’re at the right place now.

Ed Firth

I guess the background to the question is one that you’re probably getting from a lot of investors, but we can all do the maths and you’ve got somewhere around £15 billion of equity in that business. And if you look at your divisions, the market’s ascribing a negative value to that, implying that it’s not even worth zero, it’s worth a minus figure in excess of the £15 billion of equity you’ve got in there. And that has probably now persisted for 12-18 months, and it’s not obvious to me that that’s going to change any time soon. So I guess you must be thinking internally that that is going to change, and I just wondered what it is that you think is going to happen in the next 12-18 months that’s going to suddenly make everybody look at that £15 billion of equity and say, we should be valuing it at 0.5 or 0.8 or 1 times.

Tushar Morzaria

I’m not an investor so I’m not going to go into how investors are going to ascribe multiples, values or whatever. Our job I think as management is to generate a sensible return in each year and over a business cycle. And we’ve always had in our mind that this company should be able to generate a double digit return in the portfolio of businesses that we have, where our strengths are, where we have decent market share, and where we can generate returns, and have our capital allocated to allow us to do that in most years of a business cycle. And that’s really what we’re trying to do. I’d like to think, and I’m a shareholder, I own a lot of my wealth in the company, that the market will see that if that’s possible then they’ll ascribe a reasonable valuation to that. That’s really all we’re trying to do.

Chintan Joshi, Nomura

Three please; the first one on the structural reform costs that you had guided to, £1 billion, in the third quarter, of which £500 million was being taken in the fourth quarter [of 2015] and in 2016. Is your guidance for £500 million intact for forward structural reform costs for the UK ring-fencing that’s coming up, or has that changed?

The second one was, you talked to Manus’ question on growth appetite within traditional banking. From what I can see you stepped away from buy-to-let, you don’t want to take mortgage market share; you are competing with, in the mortgage market at least, with the HSBCs of the world, not going higher in your risk appetite. In cards you’ve stepped back from the growth rates that you had, organically. I think last quarter, in Q3 or Q2, you were talking about having a moderate base, mid-single digit. Some of these headwinds that you have on earnings go away if you step up the growth in traditional banking. It takes up capital, you have that, but I don’t see that happening. So I just wanted to question your growth appetite specifically in PCB and Barclaycard?
The third one, just dwelling on what Ed was talking about, you talked about revenue being assumed as flat. Can you clarify, was that just the 2016 assumption or are you saying in the medium term you don’t think revenues will grow? In which case, just mathematically I think you need something like a 19% reduction in costs to get to your 10% RoTE? It just looks too demanding, so I’m just trying to think about how are you thinking about revenues versus cost, because capital is no longer a flex, so how do you think about those two aspects when you’re thinking forward in the IB?

**Tushar Morzaria**

So I’ll take them in turn. So on structural reform costs, no change in guidance there. So that stays intact, and any run-rate additions, if you like, will be absorbed within the £12.8 billion that we’ve guided to and subsequently on this. So the one-time cost of constructing the ring-fence stay as they are, and everything else will be absorbed within existing guidance.

Traditional banking businesses and our appetite to grow, I’ll take each one of those in turn. So buy-to-let was never really a big thing for us. It’s never been a big thing for us, and some banks are really good at this stuff. It’s not something we have a lot of history in and not something we’ve done a lot of, and we don’t feel now is the time to be pushing hard in those parts of the credit spectrum.

Our growth in mortgages, we’re still operating at about 10% market share, which is, roughly speaking, our stock of mortgages. Even though we’ve pulled back, we’re still at our current replenished rate in our traditional parts of the risk spectrum relatively; like you said, a bit like HSBC, relatively low loan to value and clustered more around the South East of England and stuff like that. And it’s growing quite nicely. Obviously margins are under some pressure and I think they will continue to be under pressure. My gut tells me that margins will be more under pressure in probably the slightly higher risk spectrum, so I think buy-to-let, because it’s quite a competitive market. So that’s one of the other reasons why we’re not sure this is the time for us to go into that space where it’s very competitive; margins are probably going to come under pressure and it’s quite far into that cycle.

In the card business, the US card business grew massively in 2015. You should be very worried if we’re growing at that compound rate every year. A lot of portfolio acquisitions got digested in that year, [normally] you can’t grow that quickly. But we will grow the card business. UK, a little bit more indexed to however the UK economy is going, but US does give us a lot of growth opportunity. We’re by no means a big card company in the US; we don’t need the economy to grow, and we can continue to win acquisitions when pricing is good. We’ve stepped away from a few acquisitions, but the seasoning of the portfolios that we’ve got, you get more than one year’s worth of seasoning so I still see that as a good business for us.
You didn’t mention other areas that are growing, things like Corporate Banking had actually very nice growth for us in 2015. We’ll see how 2016 goes in terms of corporate appetite for these kinds of banking services, but it’s pretty reasonable. Small business banking is another very good growth business for us. We don’t split it out separately but beneath the numbers you can see good growth there. Even the real simple stuff like current account balances again continue to just nudge upwards all the time, and it’s very high net interest income, very high RoE business in fact. So don’t expect us to be off to the races in trying to massively grow these kinds of assets, but I think just the momentum that we have is quite powerful. And each time we’re getting positive operating jaws as well in those businesses, so the contribution to our profits is something we’re quite pleased with.

In terms of revenue assumptions, I just want to make sure I got the gist of your question right, was it more just what’s our outlook for IB revenues or Group revenues?

Chintan Joshi
Just IB...

Tushar Morzaria
Yes, so for 2016 it will be what it will be of course, but we’re always trying to do better than our plans. We aren’t expecting revenue growth, if we do better that’s great. Beyond that, we don’t put very significant revenue growth assumptions in our IB. In fact, with the perimeter change that actually helps the profitability anyway because we’re taking away less profitable parts of it. But cost control is going to continue to be a theme in the Investment Bank for some time to come. It will continue to be a theme.

Chintan Joshi
Is just sounds like well into mid-teens [cost reductions] if you don’t have any kind of ambitious revenue growth…

Tushar Morzaria
Yes, I won’t quote a number back to you but looking at the cost reductions that have been going through, it’s a little bit messy because of the FX rates, there’s more to come and we’ve got to just keep going there. And Jes has taken a very hard line on costs. I mean he hasn’t really spoken too much about it, but if you’re working inside the company you’ll be experiencing his cost controls quite personally is my guess.

Chris Manners, Morgan Stanley
Good morning, Tushar, it’s Chris Manners from Morgan Stanley. Three questions if I may; the first one was on Non-Core negative income. As I understand it, you’re saying we should be thinking minus £800 million for this year; does that include the plus £600 million that you should be getting from the
perimeter change, so it’s actually minus £1,400 million, or is it minus £800 million for the Non-Core as we know it?

The second point is on the £360 billion of RWAs; it would be very helpful to get that number. Is that including or excluding Africa, and is that including or excluding, although there is no Basel IV, Basel IV?

And then the third question is, obviously you’ve put your IB through a lot of restructuring, another perimeter change, some closures. Which part of the IB are you actually excited about, where do you think you have competitive advantage and where should we be looking for Barclays to actually excel in the IB? Thanks.

Tushar Morzaria

Yes, so Non-Core income, think of it a little over [negative] £200 million. I don’t want to get caught out with you guys being cleverer than I am – just take Q4 times four; it’s net so it includes any revenues coming in from the perimeter changes, the net effect.

While I’m on this subject, let me go back to ESHLA just to help you guys think about how we do that. So we had a loss in ESHLA in Q4. You will recall that, by the way this is going back in time, in the fourth quarter of 2014 we made a valuation change in how we mark the ESHLA book. It used to be valued at LIBOR plus a credit spread, and we changed that to gilts plus a credit spread. Quite simply, these are fixed loans that we’re receiving fixed on, hedged through swaps.

What has happened recently is the very long dated assets swaps spread between gilts and interest rates swaps has widened out quite a lot. Yields have come down, but swap yields have come down more than gilt yields. What happens there is, you make money on these fixed receiving loans, because the yields have just come down, and we lose money on the hedges. Unfortunately, swap hedges have come down a lot more than gilt yields, and therefore we’ve lost more money on our hedges than we’ve made on our loans. Now, it’s at very weird levels at the moment, we’re at extreme levels actually, it’s worse than it was in the financial crisis oddly enough; the assets swaps spread, there’s all sorts of weird stuff going on in fixed income markets, [a topic on which] other people know more than I do. This could easily carry on, I don’t know, it could get worse, it could get better. But we’ll be driven by whatever direction that goes in.

In the first quarter it widened again. And it widened more than it widened in the fourth quarter, so we’d expect, if it stays like this for the next 30 days and we close our books, we’d expect quite a significant write-down. It’s not something that actually worries me that much because we have no intention of crystallising that, and frankly if you hold these loans to maturity it all falls back to par. So it’s not something that concerns us in any way, and we’re not going to do anything special around it. But you
should just know it flows through our P&L. It doesn’t have a very significant capital effect because of the PVA item that we carry there that offsets most of that. So it’s more of a weird technical thing, but you should just be aware of it when you’re trying to model quarterlies and what have you.

The second thing was, risk weighted assets; that includes Africa consolidated today, so that will drop to whatever, £325 billion or something like that. Basel IV, we did call out a trading book review of about £10 billion as we stand today; that’s before further Non-Core rundown and management action. So I’m not expecting trading book review to be a super-big number. What operational risk will be, I don’t know, but if you listen to the Bank of England, pre-funding banks for lots of these “Basel IV” changes through their Pillar 2A add-on, so again the risk weighted assets number may change but the capital effect may not be so significant. And I’m assuming the same is true for standardised credit risk weights, for example, but I don’t have complete visibility on that. And various other things, interest rate risk in the banking book; there’s various things going on, assuming that some of that will be captured by Pillar 2A levels that UK banks are running.

Chris Manners
So that’s in the £360 billion?

Tushar Morzaria
Well, no. So take the easy one, the fundamental review of the trading book, that £10 billion; I think it will be lower than £10 billion, and I’m probably not going to revise for something as small as that, but as it stands today, no, don’t assume that’s in the £360 billion.

On parts of the IB that we’re excited about; interestingly enough, if we do go into what feels like more of a fixed income cycle – equity underwriting has been very, very quiet at the moment, that hasn’t been a traditional strength of Barclays – but fixed income, sales, trading and underwriting has been a traditional strength. So in some ways this could work out quite interesting for us because we’ve restructured our macro business massively over the last 18 months, and it is performing at a very good level. Inside the Investment Bank, the Macro business carries a lot of the weight actually. And if we do go into a cycle that’s more geared towards that activity, that’s actually a nice thing for us because there are some banks that will probably have a better equities platform than we do, but on the fixed income side I think we can hold our own against the best of them. So I think that could be quite interesting for us.

Leveraged lending has been a good strength of ours; that’s a high yield market, much less activity than we’ve had last year. But I do think there’s a chance that, because we’re strong in that business we might increase our market share as a relative example. It remains to be seen what deals are coming through. We did a very large [financing] behind Apollo in their purchase of ADT for example; that was the
biggest leveraged buyout this year and we were the lead bank on that. It’s a good example of where that could play to our strengths. So I think in debt underwriting and macro sales and trading markets is probably where we’re well positioned going into this kind of cycle if it persists like this.

Arturo de Frias, Santander

Just one question; may I go back to the maths behind the dividend cut? Comparing the 3p with what consensus had for 2016 and 2017, the combined cut is more or less 9p, which on the 17 billion shares is like £1.5 billion, more or less, of additional losses assumed or protection against additional losses. Non-Core lost £1 billion in 2014, round numbers, £1.5 billion in 2015, and I guess everybody had in their models that Non-Core continues to lose approximately £1.5 billion in 2016-17. So the fact that you cut the dividend to 3p is more or less like saying or implying that the losses in Non-Core could double, and that is not taking into account that reducing RWAs gives you a capital shield. So you have £50 billion RWAs implying £6 billion capital there. So the potential loss implied in that dividend cut is quite large, or looks to be quite large. Am I doing the numbers right or where would you encourage me to change the way I look at the maths?

Tushar Morzaria

Yes, I wouldn’t comment specifically on, we haven’t guided to the exact amount on Non-Core losses as I see them, but we’ve tried to help you model them by giving you what I think the cost and income lines will look like, and then I’m sure you’ll get to a pretty similar number to me. What I don’t want to scare people with is that there’s some gigantic loss in Non-Core that we’re not trying to tell people about. We’ve tried to be as specific as we can. The bulk of this will happen in 2016 and we’ve tried to guide really as much as we can do these days on income and expenses, ESHLA being a variable.

The flexibility though that we have, with additional capital coming through the reduction of the dividend, will allow us to do a number of different things. Who knows where and when conduct charges may come through? We have things, like RMBS, still to work through, we don’t know how much that will be, we don’t know when that will come. But it gives us the capacity to absorb that and still manage our capital position, whenever that is. It allows us to do other RoE accretive things. So I’ve given a couple of examples, these aren’t predictions again, but were we to exit large real estate footprints, it gives us the capital capacity to do that over and above everything else that we’re doing, which is economically a very good thing to do. It’s very RoE accretive and NPV accretive in fact. And also, whether we do further liability management type things. Again, no prediction on that but where there’s a capital effect, that allows us to do that. So think of it as much as flexibility to reposition the company as quickly as we can, such that the Group is generating a reasonable return while at the same time underpinning ourselves with a strong capital position.

Arturo de Frias
Thank you for that. A quick follow up; given that most of the disposals, you have said that very clearly a number of times, again that most of the Non-Core disposals will take place in 2016. Should I assume then that the dividend cut in 2017 is more for the other flexibility, conduct, real estate...?

Tushar Morzaria
A lot of the announcements we'd like to hope take place in 2016 is somewhat driven by appetite for various of our businesses. The closing dates for them will be when they will be. Usually there's a three to six month timeline in closing a deal. So if we announce a lot of them – I'm making this up – in August, some of them may close in Q1, some of them may close this side of year-end. So it again gives us a little bit more flexibility of running, if we need to, to closing dates that might go into the first part of 2017. And then you're right, all the other actions are available to us.

David Lock, Deutsche Bank
Just focusing on the Non-Core, and I know you’ve given us a lot of guidance on costs going forward but really just trying to look at the income in 2017 and trying to unpack what will be left in there, and I’m assuming the large portion will be funding costs. I know it’s difficult for you to predict what funding costs will be, but maybe if you could help us try and understand maybe the relative funding costs you’ve had in 2015 for Non-Core, so we can try and gauge how negative that number will be in 2017.

And then a very quick clarification one which is, you’re taking out Africa from Core and you’re taking out the perimeter change from Core, but obviously there’s a bit of double counting in there because of Zimbabwe and Egypt. So I wonder if you could call out how big that is. Thank you very much.

Tushar Morzaria
Yes. So think of, when you look at the fourth quarter of 2014, we split our income in Non-Core into those three line items; Businesses, Derivatives, and Securities and Loans. Businesses, obviously there’s no real funding so put that to one side, they’ll disappear when the businesses is sold, it’s a binary outcome. Derivatives, that number is mostly funding. The fair value movements in derivatives tend to be quite small. It’s a pretty well hedged book and it’s relatively easy to hedge actually, so we don’t get whipped around. There are exit costs of exiting derivatives in there, but assume that in something like the fourth quarter, most of it was funding related.

In the Securities and Loans, the bulk of that number happened to be the ESHLA [fair value movement]. We haven’t split out the funding costs from ESHLA, but it’s much smaller than the [fair value movement] that you saw. As we get into 2016, we’ll try and help you with splitting out one of the quarters so you get a better look into what the funding residuals may look like.

David Lock
As a follow up, obviously the Bloomberg index business (Barclays Risk Analytics and Index Solutions Ltd.) hasn’t gone yet, so that will come out in the full year 2017 as well?

**Tushar Morzaria**
The sale will close in 2016 so it won’t exist in 2017, you’re right.

**David Lock**
So a portion of the £800 million negative income for this year will actually have the positive...

**Tushar Morzaria**
A little bit of index business in there, that’s correct.

Zimbabwe and Egypt, you’re right; I don’t think it’s so much as a double-count but you’re right. The Barclays Africa segment does include Zimbabwe and Egypt. They’re pretty small in the scheme of things, particularly Zimbabwe. Both of them go into the Non-Core perimeter, and Barclays Africa Group Limited, which is like 99% of the Africa segment anyway disappears into a discontinued operations line item. So it will be quite clean, there’s nothing left around from Africa at all in our Core businesses, if you like.

**Ed Firth**
A very, very quick one; one of the things I guess a lot of people are talking about is negative Euribor rates. And I just wondered if you could just talk a little bit about that, about how that’s actually working. Am I actually right that you are now being paid to take short-term Euro deposits, and in terms of, people have been asking a lot about the computer implications and how this actually, how this stuff is priced etc. and whether this is a major threat to you or you’re quite happy just now, everything is working in reverse and everybody’s continuing...

**Tushar Morzaria**
Yes, I mean Euribor negative rates isn’t such a big deal for us as we don’t have significant operations on the continent like some of our other peers may do. Sterling negative rates would have a much more profound effect on us. There’s a little aspect, the Swiss National Bank has been running negative for a little while, but actually for central bank deposits we still pick up some carry. We don’t have negative deposit rates in, say, the Swiss Central Bank. That might be taken away from us at some point. But at the moment, Euribor is not such a big deal for us. In the UK our expectation is that we don’t go negative, at least in the foreseeable future. If that changes, obviously we’ll have to adapt accordingly and that becomes quite abstract, definitely. I don’t know what it will be in terms of, the liability side is one thing but it’s the assets side that becomes quite abstract. It’s not a big effect for us at the moment though.
Raul Sinha, JP Morgan
Just a couple of very quick ones; on the [UK Bank] levy could you give us a number for this year, and don’t you get the benefit on the levy on Africa straightaway because it gets de-consolidated from an accounting perspective? And the second one is just a question on the IB cost base; are you planning to accelerate any deferrals this year in terms of your cost guidance, have you built any of that in?

Tushar Morzaria
Yes, actually our levy rate goes up, because what happened was the budget came in and increased the levy rate by 40% for a partial year. 2016 ends up for the full year and then it starts going down again. For the rate it goes up, we’ll do our best to manage that within our cost guidance.

On Africa, we don’t pay the levy when we, as an accounting matter, de-consolidate, when we go to associate accounting. Again, it’s a grey test. So day one accounting will be a single line item, discontinued operation, marking to market our shares [in BAGL] in effect. Day two accounting is when actually there’s nothing on our balance sheet, we de-consolidate. At that point we don’t pay the levy. The accounting test is qualitative, it’s all about control so we can’t be precise about it. If we were to sell down, my guess would be anything below 35% I think it de-consolidates as an accounting matter. Anything above 45% probably doesn’t, and then you’re in that grey zone in-between. So it really depends how far we go.

Raul Sinha
[Deferrals…?]

Tushar Morzaria
Yes, I’d like to do that. We’ll guide to you if we do that because it will be a one-time effect.

Raul Sinha
[Is that why you’re guiding to flat costs this year?]

Tushar Morzaria
No, it’s not because we’ve got some kick-in; that will be a big number. That will be an enormous number and that’s why we haven’t done it today. No, we’re guiding to the cost guidance we’ve given, it’s very consistent with what we had. We have adjusted it for FX because we lose that currency diversification, and we’ll try and do better than that where we can, just like we’ve done every year. We’ve at least tried to meet or come inside the numbers that we’ve put out, and we’ll do our best this time around as well.

Corinne Cunningham, Autonomous
This might be a better question for Dan [Hodge]. I’ve got a couple of questions on liability management and whether you need regulatory approval to redeem these instruments. And if that’s the case, does the regulator look at your go-to MREL number or is it looking at your phased-in, because it’s quite a big difference at the moment?

Tushar Morzaria
Yes, generally we do get regulatory approval before we do, if not in all cases, but Dan why don’t you answer that?

Dan Hodge, Group Treasurer
Yes we do. It actually takes up to three months to get approval as well so it can be quite torturous. So we have a view at the start of the year as to the liabilities we might want to go after to make sure we’re not caught short by that one. They look at all the factors, absolutely, and therefore they will have – you may be referring there to the consultation paper on MREL that could be potentially super-equivalent to the TLAC rules – they will have started to look at that as well, absolutely they see the same literature as we do, and they take that into account. So you can assume from our announcements two days ago and the buyback of the subordinated debt, they’re entirely comfortable with that. And on that particular decision, we’re buying back sub-debt which is not going to be qualifying under any TLAC or MREL post 2022, so we’ve gone for the longer dated maturity instruments.

Fiona Swaffield, RBC
On the US IHC, you’ve obviously done a lot of deleveraging in Q4 which I’m assuming is in the Investment Bank, I think you said that was the case. So where are we on how big the IHC is and are you comfortable with being able to meet CCAR on the leverage ratios?

Tushar Morzaria
Yes, we are comfortable in the capital requirements of the IHC and the plan. So we incorporate the IHC in July this year as a legal matter and we run a private CCAR exam in 2017 and a public one in 2018. So all the work we’ve been doing in repositioning the Investment Bank is obviously to meet IHC and CCAR requirements, and we’re on track for that and in a pretty good place.

Fiona Swaffield
But could we assume that quite a lot of the deleveraging [would be] in the IB?

Tushar Morzaria
It wouldn’t be just the IHC, it would be broader but enough in the IHC to make sure that we’re well within inside any requirements we have. Don’t forget Non-Core had quite a bit of deleveraging as well.
Fiona Swaffield
But historically you used to say in the Investment Bank would have £400bn of leverage exposure, I remember. Do you know of any more [reduction]. I’m assuming it’s lower?

Tushar Morzaria
Yes, we haven’t disclosed that so I’m not going to tell you, but if I had anything to say on that I guess I would. It’s well within what we expected it to be. To be honest, in terms of capital progression we probably ran a bit ahead of leverage relative to CET1. Both turned out okay but probably leveraged a bit better than we thought.

With that I should wrap it up. Hope this was useful. Please do give your feedback into Investor Relations. Thanks
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Forward-looking Statements

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Subject to our obligations under the applicable laws and regulations of the United Kingdom and the United States in relation to disclosure and ongoing information, we undertake no obligation to update publicly or revise any forward looking statements, whether as a result of new information, future events or otherwise.