Tushar Morzaria, Group Finance Director

Just in terms of very brief opening remarks, I won’t dwell too much on Q3. We didn’t get a whole load of questions on that on the earnings call, but happy to take them today if it’s helpful. I’ll spend a bit more time just on our forward guidance.

There were three items of forward guidance it’s worth just reminding people on. In the near term, so for full-year this year, we guided to our overall cost base, including the bank levy, to be between £14.2 and £14.3 billion, and within that we expect the bank levy to be no lower than last year. The reason for that is we anticipated a change in the way in which the levy was being calculated. That change actually has come through into law, but our expectation was it would be applied to tax years that we have open with HMRC, but that isn’t the case. The change in legislation we took advantage of is only open for prospective taxes, so we have a bit of a catch-up. Beyond next year, I think you go back to a ‘normal’ levy, depending on the rate and obviously the size of our liabilities and nature of the liabilities. So you’ll be able to model that in the more normal way, but there is a one-time catch-up [this year].

Moving then into more medium term; for 2019, we guided to a cost-base of £13.6 to £13.9 billion, and for a return on tangible equity in 2019 of 9% or better, and in 2020, 10% or better. Within that, assuming we were to hit those targets, we would expect our cost: income ratio, just by the arithmetic, to be below 60%.

I guess two other comments that are just worth highlighting on that; firstly, we’ve had some questions on what have we assumed in terms of US tax rates, the interest rate environment, and various other things. We haven’t tried to be too clever on this. What we do as part of our planning cycle is, during the summer, we literally just take a consensus forecast of publishing economists, a few things like GDP, unemployment assumptions, short-term rates, long-term rates, house price appreciation, and what have you, FX rates even, and do our planning off that. To the extent that the macro environment is different, then it will either be better or worse for us; so where it would be better for us, would be if there were more rate hikes than we had originally had in that consensus; where it would be worse, of course, if there were no rate hikes, because there was one rate hike in that consensus for next year. If tax rates in the US get better, that’s helpful, whereas if they go up, then that will be unhelpful, if they go up in the UK or anything like that. So that’s how we thought of the macro assumption. I’d characterise that macro assumption as the UK ‘muddling along’ – it’s still growing, but not in any stellar fashion, but not in a recession either. So, if there is a downside shock in macro, that will feed through into how our numbers may look.

The other thing I’d say is on tangible book; the idea is not to generate this return by any material shrinkage in tangible book. It’s a little bit hard to model some of these things, because of course there are some technical line items that will be given by the macroeconomic environment; things like cash flow hedge reserves and currency translation reserves and what have you, and even pensions and stuff like that. So that can be a little bit of ‘swings and roundabouts’, however that works out. But the other
one that can be material, and the timing of which is of course uncertain, is the litigation and conduct. So if you have no litigation and conduct, obviously that tangible book would grow more than we would expect it to. If we have litigation and conduct in line with our plans, then it will be what it will be, and vice versa. But, broadly-speaking, in our plans we would look to preserve and grow tangible book over that period, though it will be subject to the vagaries of timing and effects of those items.

And the final two items we gave as guidance was IFRS 9; the number I would encourage you guys to think about for IFRS 9 is 20 basis points of CET1 [ratio] effect over the transitional timeline of how much capital it will cost us to cycle into an IFRS 9 approach for capital purposes. We are expecting a transitional approach, that’s not a given yet; there do need to be some changes put through European rules, but we do think that’s very likely. And therefore we expect that to be of really minimal consequences in any one particular year, when you’ve 20 basis points over the full life, if it’s a four-year or a five-year transition, it’s not much in any one year.

And then, finally, we thought we would try and be helpful on giving a sense of our interest rate sensitivity as a bank. The thing I would encourage you guys to think about, there is the years two and three, which we haven’t really talked about in the past. As you know, our hedging programme has been in place for some time. It’s been a very effective hedging programme for us, and supported our net interest income materially over several years. And we are, at this stage, continuing to roll our hedges; what that means therefore, of course, is that for rate rises, the powerful effects happen in years two, three, four, and beyond, and we’ve tried to highlight that on the slide. We’re not forecasting a 100 basis point parallel shift in the yield curve. For the avoidance of doubt, just think of that as a mathematical scenario, rather than a forecast of where we think rates are going.

**Jo Dickerson, Jefferies**

Just a couple of questions. In February, the bank is going to give a capital update in terms of plans for what to do with any excess capital etc. Could you give us the milestones that are required to increase the dividend, or embark on share buy-backs?

And then, secondly, one area of investor concern is around growing income in the investment bank. How can we get conviction that all of the efforts and investments you’re making in the investment bank can translate through to income growth in 2018 and 2019?

**Tushar Morzaria**

In terms of capital distributions, I don’t want to say too much on this because we’ll be talking a lot more about this at full-year results, and I don’t want to preview it. And one of the reasons I don’t want to preview it too much, of course, is this is a matter for the Board. The Board hasn’t authorised me to say a whole lot yet, so I won’t. But at least to try and be helpful, I’d say that return of capital back to shareholders is something that’s very important to the Board and the management of this company, so that is something that we will endeavour to do. The form in which we’d like to return that capital, we’ll talk more about at the full-year, whether it’s dividends or whether it’s specials, whether it’s common dividends – there’s more to come on that. But we do understand that a decent common dividend with some further ability to distribute capital is an important thing for this company to do. So more to come on that. I’ll leave it there, I don’t want to be too pre-emptive.

Income in the IB; I’d say there are some areas where we have a very high conviction, because it’s the deployment of financial resources to where we understand marginal pricing for today. Marginal pricing may change in the future, but as best as we can see it today that should be high conviction that that’s additive. Examples of that would be, let’s say, the deployment of leverage; we continue to have demands from our clients to deploy leverage to them, for which they are prepared to pay us what we consider quite attractive levels. That’s not a value judgment on the wallet for leverage increases, it’s just what we hear from our clients, so maybe they’re taking that from elsewhere, I don’t know, but our clients are certainly asking for us at reasonably attractive levels. And again, the spread on that
obviously depends on the nature of the product, whether it’s in the fixed income space, the equity space, the term, how structured it is, and various other things that go alongside, so I won’t quote a marginal rate. But if we were to deploy, say, £50 billion additional leverage in the IB, I’m sure you could ask your own trading floors as to what sort of margins you would expect to make on that, but they should be reasonably healthy and accretive, and there’s several hundred million pounds of income you can get to relatively quickly.

Risk-weighted assets is similar. Now there’s obviously an interplay between risk-weighted assets and leverage; the financing activities of just deploying leverage tend to be very low-risk-weighted, so don’t consume much [capital]. The redeployment of risk-weighted assets is a little bit more complicated, but if you look at just the investment bank, take an average number of, let’s say, £7.5 billion of revenue, I haven’t looked at IB consensus or anything, I’m just throwing out a number for illustrative purposes, don’t take that as any guidance or anything like that. The risk-weighted assets in the IB, so I’m thinking here about market risk, counterparty credit risk, etc., it’s about £100 billion – I’m ignoring operational risk-weighted assets which, in some ways, aren’t a productive RWA, just an RWA we have to hold. So you can see that, on a blended basis, we’d make about a 7.5% revenue over risk-weighted assets. There are some parts of that that are low earning, and some parts that are obviously earning above the blended average. Our idea is that we should be able to take some of those lower earning parts of that spectrum and recycle that, who knows at what level, but let’s say even below the blended average, but you should be able to pick up several percentage points if we can get this to work well. And we’re seeing the early signs of that playing through. You can pick your own number, if you can pick three, four, five percentage points of improvement on something like £10 billion, just as a round number, you can get to hundreds of millions of pounds of income there as well. So, those are the sorts of thing that are higher conviction, because we understand that the demand is there, we understand what the marginal pricing is there, and we have the financial flexibility now to do things like that.

Where we obviously have a lower conviction is areas where we need to develop a new product or a new service, or where we want to take an increased share of a fixed wallet. Now, on that, some areas we have has been quite successful in, not so much in sales and trading, but very successful in the fee line; we’ve had a record nine months, actually, for Barclays’ investment bank on the fee line in capital markets, advisory, M&A, we’ve had a highest ever fee share in debt capital markets, which is actually our staple business in some ways – we’re much stronger on the debt side of the business than the equity side of the business. We’ve had our highest ever fee share in leveraged finance, for example. I don’t know if that will continue, but I think some things we’ve done okay in, and other things we need to do better in. Obviously, for those things you’ve got to have a lower conviction. And we may do a really good job, it may not work out as we planned, but that’s how I think about it.

Michael Helsby, Bank of America Merrill Lynch

Just on that topic of IB revenues if we can, because I think one of the things that’s been a trend in the industry for quite a while has just been the rapid introduction of electronic trading, and margins coming under pressure. I think you’ve got about a £800 billion balance sheet in the IB, so to what extent, it would be interesting to know, what margin pressure you’ve assumed to come through? Because by focusing on just the new bit you’re pulling in, you’re ignoring the much bigger bit at the back end.

Tushar Morzaria

Yes, it’s a really good question, and it’s a way of life. So take, for example, cash equities, or even electronic foreign exchange, margins continue to be very competitive. You can even say that about retail banking these days. So, we have had our own forward projections of margin compression, particularly. This is very similar to our retail banking, it’s volume times margin, and it’s the net of that equation, your revenues going up, or declining, going down. And we believe that there’s enough volume, that we should be able to capture. A good example of that, I’ll give you a good proof point; take electronic foreign exchange – even I had to double-check this when I was reviewing it myself – I was obviously quite impressed by it; our electronic foreign exchange volumes in the third quarter were
up about 25% year-on-year. And the reason I was quite surprised by that was because that was the back of the Brexit referendum this time last year. We are a reasonably good foreign exchange house, but even that was on the electronic side, which even I was quite surprised with. So, our foreign exchange revenues actually in Q3 were better year-on-year, which really surprised me, given the moves we had in foreign exchange this time last year. So, it’s an example of where I think we have some track record, particularly on the fixed income side, to be good on electronics.

I think on the equity side – and we’re not as big an equity house as some of our US peers – there are some parts of our Equities business we weren’t very good at several years back. Actually, one of the things that Tim Throsby commented on when he first got here – and he’s an equities guy from an American peer – he said ‘you guys used to be really good at electronic, but when I looked at you from the outside, electronic equities, cash equities, it seemed that your franchise has been under-invested in, and we can see that you’ve able to do things that you guys are not able to do’. So, there’s an opportunity there, maybe, to improve our positioning, but we’re quite realistic on we don’t expect to just go in and start grabbing market share out of some of the larger players. But we do believe that for ourselves, the demand we have from our clients, the institutional relationship we have, that there is enough volume that we can put through, all things being equal, of course. It’s a cyclical industry, but all things being equal, we should be able to manage through that margin compression. But we are expecting margin compression.

Michael Helsby

Thank you, and this year, in Q1, Q2, and again in Q3, this time it’s in flow US derivatives, I think Jes has called out, that you’ve had some problems in trading. So what assurances can you give us that, as you put this balance sheet to work, that you’re doing it in a fully adjusted risk environment, that you actually know what you’re doing? It seems like three times now, it’s uncharacteristic, actually.

Tushar Morzaria

Our volume has held up well, which is probably the most important thing. When I bench everything, I can see to industry volumes, and our share of them, our volume share has held up okay. So it is trading skill, and we haven’t done as good a job as we should have done. We did okay in 2016, it’s a bit peculiar that we haven’t done as well in 2017. Now, of course, that’s a human capital skill, and we have re-tooled that. If you look at Tim Throsby’s investment banking leadership team, essentially, it’s a brand-new leadership team. We’ve got a new Equities head, a new sales head, and a new head of Macro. Again, if you look at Barclays’ recent history, it’s the first time, this year, that we’ve actually net added senior hires into that trading floor expertise. We hired investment bankers when Jes first got here, and I mean I can see the impact it’s had on the fee line. But until Tim came here, it was probably the first net add since Bob Diamond left, probably.

And so the only thing I can tell you is, I think we have the right people for the role, to supplement what was an okay running trading performance, at least until this time last year, and we should expect to see that improve. Where those people have been there a little bit longer, I’m already beginning to see the improvements as I look at our numbers.

What I would say, what we haven’t done, is we haven’t had large losses. If anything, we haven’t been taking large risks that we’ve just got wrong, it’s that skill of capturing bid/offer. We’re not a position-taking type, we’re not that kind of institution, I’m not sure we necessarily ever will be. It’s more the skill in trading around your flows to capture that bid/offer, and that we haven’t done as good a job, in some areas, as we should have done. Because, yes, I’m disappointed in ourselves a little bit, but we have re-tooled the team for that. These are guys with deep pedigrees, with 20 plus years trading skills from top houses. And, as I say, they’re already making bits of impact.
Magdalena Stoklosa, Morgan Stanley

Just a follow-up again on the investment banking, but slightly more from a top-down perspective. You’ve singled out FX, Rates and Credit as the areas where you see potential for income growth for yourselves, but I’m just curious about your view about the global revenue pools within those businesses over the next three years, and your positioning within that, and within that broader strategic view?

Tushar Morzaria

We try not to be overly-clever in trying to do that; it’s a cyclical business, so it’s enormously difficult to predict what it will be in 2019 precisely. But, generally speaking, we feel that the growth of financial assets will continue. The growth of money being managed will continue - now there’s passive versus active, so there are forces counteracting how much trading flows that will necessarily generate, but we do believe that the revenue pool is a sustainable revenue pool.

And in real simple terms, and this is not saying how we’re thinking about this, but if we had the same market share of those trading revenues that we had in 2016, our numbers would look quite different. We’re not assuming we’re going to improve market share necessarily, but I don’t think it’s unreasonable for us to think we can at least get back to where we were three or so quarters ago, and look to then build on that, given the investment adds that we’ve made, plus the financial capital, as well as the human capital that we’re now able to deploy. But again, the macro environment will be what it is in 2019, and your guess will be as good as mine. But assuming it’s anything like economists forecast it today, I think we feel pretty good about our chances of getting to the right place.

Ed Firth, KBW

I have two questions, if I might. The first one was on the cost target; I’m surprised that you feel confident, three years out, giving us a cost target that’s only got a 2% range. The consensus wasn’t even that close on Q3, never mind three years out, so could you give us some idea, what are the assumptions behind that, in terms of revenue expectations for the investment bank, Brexit, foreign exchange? What are the big drivers, because clearly, hitting that sort of number, it’s a pretty small range to hit, so I guess you must have some sensitivity about that? And also the trajectory, are we looking at a flat and then a fall-off at the end, or should we see a steady development towards that?

The other question was about recycling of risk-weighted assets; you guys have been talking about recycling risk-weighted assets for some years now. I think the first time was Anthony Jenkins with a chart showing the return on risk-weighted assets, I think by 40 divisions, you had something like that, and you told us how you were going to get rid of the ones at the bottom, move it to the top. It hasn’t ever really quite come through, and I wonder what gives you confidence this time that you think this is any different to what you’ve been trying to do for the last five or six years?

Tushar Morzaria

On the cost side, ever since I’ve been here we’ve had a target, in 2014, 15, and 16, I believe. We didn’t have a target in 2017, but we’ll have one again in 2019. And every one of those years we have hit our cost target. I guess those are things that, in some ways, you can control. You can always hit a cost target in some ways – there are always things you can stop spending on with enough notice. I’m not a huge fan of cost targets, but I can understand it gives clarity of objectives and purpose for investors. Remember, we’re sitting at the back-end of 2017, and this cost target is a 2019 calendar spend. You need to know what your entry rate into 2019 is, to make sure that your calendar spend is going to be at the right level, and so in some ways, we’re only more than three or four quarters away from having to have the right run rate to get through the following 12 months. We’re a big company, and like with all big companies, you can’t just go around re-balancing your costs in a quarter or something like that, if it’s a multi-quarter exercise.
The things that are beyond our control; obviously foreign exchange rates, and I'll continue to call them out to the extent there's any material changes there. Generally speaking, a weak Sterling is helpful, so that would inflate costs but inflate revenues even more – so the 'right way' in that regard. I wouldn't mind missing the cost target for FX rates because we would be a more profitable company.

And the only other thing that can possibly be out of our control is any weird macro shock. As long as there's enough timeline to deal with whatever it is, then it's fine within our cost targets. If something happened instantaneously – an example would be Wales decides it wants to be independent, and it needs to be independent by the 30th of June next year – that's the sort of shock that we'll have to just absorb. But those things generally never happen in that near-term, so by and large we're able to manage.

Now, for example, what we're going to spend in Q1, I can tell you today, although I won't tell you. We're sitting here already knowing we're not going to be able to change that spend materially with only a few weeks left. So, we sort of have more visibility than you might think we do.

Ed Firth
But in terms of investment banking revenues, you must be making some sort of assumption now?

Tushar Morzaria
Yes, we make assumptions on impairment, on the tax line, of course, on all of our line items we make some assumptions. And sometimes they're right, sometimes they're not.

Ed Firth
But if those came in much better, the environment proved to be much better, surely you'd have to spend more money and that would be a good thing?

Tushar Morzaria
Absolutely. I imagine a straightforward conversation to say we've blown through a 9% returns target, and we'd like to invest more, I'm sure that's a relatively encouraging conversation to be having. But let's see if we get there and if we need to have that conversation.

Your other question, on RWA recycling, it's a good question. I actually think we have done an okay job of this, but not a stellar job. We've done a good job of this in the investment bank, the narrowly-defined investment bank, so sales, trading, and investment banking fees, and the loan portfolio, that supports that investment banking fee business. One thing I don't think we've done as good a job as we should have done is in the corporate bank. And partly that was because the corporate bank historically was managed as a total corporate bank, all the way from very, very small businesses, all the way to giant multi-nationals. And I think when you start double-clicking in that, and you manage in separate pieces, which we probably should have done a bit of a better job of, there are opportunities, particularly in the larger-scale corporates, where we can continue to recycle.

And shining the light in that, and having those client sets managed alongside the investment banking clients meant huge overlaps between the two, of course, as you'd expect. I think gives us a lot of confidence that there's a lot of opportunity there that we can get after, which isn't a net add of capital, but it’s a recycling on a different spectrum, or different slice of the continuum that we were doing previously.
Jonathan Pierce, Exane

Just to come back to that question on costs; what can we expect for 2018 and the glide path down to 2019?

The second question is on your assumptions with regards interest rate increases. You’ve given us a range, which is helpful. Within your scenarios, have you assumed any particular change in the mix of your deposit base? Because if I go back ten years, you only had about £10 or £15 billion of zero percent. current accounts, now there’s £80 billion on the balance sheet. So what have you assumed in terms of customer behaviour, as opposed to just what you can pass through in individual product lines on the rates?

Tushar Morzaria

Regarding the cost glide path, again, we haven’t given formal guidance, so I’m loath to give you too much on that. But we were slightly high there compared to where costs were in consensus for this year. One of the reasons for that is the underpinning to all of this is that we believe we’re at a point in the company’s lifecycle that continuing to just cut the cost base year in, year out, into continuum is not going to result in higher levels of profitability.

Now the cost is going down in 2019 versus 2017, so I’ll leave you guys to decide whether you want to draw a straight line, or a flat line or whatever. I don’t want to give too much guidance on that. But I think it’s one of the things that many people who join the company at the most senior levels, particularly the Board level, at some point you have to see your costs flatten out, and you have to start growing your topline – it’s the only way you’re going to really improve your profitability.

So I won’t say any more than costs are down in 2019 versus 2017. I think the control around making sure that we’re leaner and making ourselves efficient. But I think beyond that, at some point you’ve got to see a plateauing out, and the income line dragging the cost line up with it.

In terms of interest rate assumptions, pass through assumptions and what have you. It’s actually going to be fascinating to see how this works out, because of course we haven’t had the situation for the best part of a decade. So although we have been giving this a lot of thought, and a lot of both expert judgement, but also quantitative modelling around behavioural assumptions around how much those NIBCAs are really rate sensitive, and will they be looking for a home? How much is it just lazy money sitting in these NIBCAs because the rates are so low everywhere? We’ve got our assumptions around that, and I guess we’ll all find out for sure whether we’re right or not.

I think we have a reasonably high degree of confidence, though, that we historically haven’t paid-up for deposits. Now, in a falling environment, maybe that’s easier to do, and still had positive growth – deposits have gone up virtually every quarter, I think, since I’ve been here, and NIBCAs in particular. I think we have a reasonably high conviction that we can price competitively and capture NIM but hold onto at least the cash we want to hold onto, those are real structural balances. Hopefully we’ll start seeing how successful all banks are at doing that from Thursday onwards. We’ll see.

But we’ve given it an awful lot of thought, and got some very well-thought-through assumptions. We’ll find out if they’re right or wrong. I think it’s a voyage of discovery for all the main banks, given it’s been such a long time.

Jonathan Pierce

But, just to be clear, you have assumed that there will be a degree of mix-shift within the type of deposits?
Tushar Morzaria  
We certainly expect that regarding NIBCA cash, those non-interest-bearing current accounts, there is a degree of rate sensitivity that will exhibit itself in a rising rate environment for sure. We don’t believe that people that are not rate-sensitive today may not become rate-sensitive. So the people that leave £50,000 in their current accounts, when rates start backing up, do they start putting that into savings accounts rather than just leaving them in current accounts? We have our own assumptions, and we believe there is some rate sensitivity in there, but we think it’s still very manageable.

Jonathan Pierce  
Just one final quick one on this; is this consideration around the rate-sensitivity of customers – and they appear rate-insensitive at the moment – one of the reasons why maybe your hedge isn’t quite as big as we could get to if we took your equity in the zero per cent balances and then a chunk of the rest of your deposits?

Tushar Morzaria  
We’ve made some assumptions already of how much our managed rate deposits, or indeed NIBCAs are, if you like, rate-sensitive, and hedge accordingly. And different banks will have their own assumptions around that, depending on their own client mix, and premier versus retail and whatever.

But the purpose of that slide was really just to show you, if you assume a very high pass-through rate, in other words rates rise and we’re basically paying most of it through to our customers, and as our hedges continue to roll, with no change in hedge strategy, no change in outflow assumption etc., what that does [to net interest income]. And if you were to drop [the pass-through rate assumption], and it’s obviously very sensitive, the more NIM you capture – the numbers start moving tremendously.

So, I think probably all the large lenders will act to catch as much of that NIM as they can, depending on their own sensitivity to the alphas, and whether they care or not. I think the interesting dynamic will be between, probably, the building societies and the large banks; the building societies, like Nationwide, I’d probably expect them to pass on the rates, and I think they’ve already been public, they’ll pass on rate rises basis point for basis point, immediately. Obviously the large lenders, because they’re not a publicly listed commercial activity, they have a different objective in their purpose. How the large lenders manage that will be the most interesting thing. I think what that comes back into is the customer base; premier guys can be more rate-sensitive than retail guys, for example, and in some cases vice versa. It’s a very complicated sort of equation.

Claire Kane, Credit Suisse  
I have three questions, please. On costs, last time we sat here you mentioned that you didn’t have any plans, big investment projects underway, and so could you talk us through maybe what happened post that? Did you sit down and then decide how much of the planned investment spend was going to be committed to the cost target, and where those will be allocated?

And then, on Consumer, Cards & Payments, perhaps you could talk us through what the investment is there, why you’re confident on 10% annual growth in balances, if you’re happy with the existing stock that you have or if any more portfolio sales are planned? And perhaps why you didn’t take that net off that charge against the Q1 gain that you booked at the time; what happened there?

And finally, just with the DOJ article that was in Bloomberg this week, if there’s any update there on progress on discussions? Thank you.
Tushar Morzaria

I’ll take them in the order you’ve got them. Cost and large investments; I keep on reminding people that costs are going to be down over that two-year timeframe, so net net, we know we’re spending less obviously than we are this year. There are gross saves, some of those are obvious and tangible, which are the things like our structural reform programme coming to a closure, and our Non-Core unit not exhibiting those costs that we had in this year.

And, as you can see, we are reinvesting some off that back in. Now, these [investments] aren’t, I would say, individual blockbuster, gigantic, these are good things that a bank should be doing. Some of them are stuff we would do, regardless of the revenue environment, thinks like cyber-security – we never want to have a cyber breach. I think that would be a real challenge to our business model if we’ve got weak cyber defences, so there are things that we would have to do. Open Banking comes online in the UK in January, that’s something we’re absolutely ready for and would spend money willingly on things like that – development of our API store, for example. And then there are things like electronic capabilities in the investment bank, but these aren’t individual… we’re not talking hundreds and hundreds of millions of pounds, these are just sensible things for us to do.

But I’d go back to where I think we are in the lifecycle of the company; although costs are still trending lower in 2019 versus 2017, I don’t think you can just extrapolate forever now. I think we have to see income improving, and at some point, with some sort of lag, income dragging up costs. We’ve got to have productive costs, so it starts growing the company. We’ve shrunk for almost a decade now, and I don’t think profitability will continue to improve, so we’re just shrinking now. So that’s the overall picture.

In terms of Consumer, Cards & Payments and the US card business, I guess is a proxy question; we’ve grown receivables there by about 10% over a number of years now and we’ve restocked the j-curve – the American Airlines portfolio is a very large transaction for us. That secures us for several years out. Uber will come online as we speak, it begins in the next week or so. So that’s the thing about our j-curve being restocked. There are other, probably smaller, ones that you probably don’t hear us talk too much about, but other parts of partnership programmes that we’ve won, or will RFP for, that are coming on the block.

In terms of the risk profile of that, yes, we’re much more comfortable with it than we were perhaps at the beginning of the year. We sold about $1.6 billion of that portfolio, which was the lowest-rated tranche of that portfolio, and we took an income gain in Q1. The reason for the impairment charge in Q3 is that the premium that we were due to receive on that asset sale, the buyer actually defaulted on it. And so we restructured the transaction with the new buyer who stepped into their shoes, changed the economics around, and that’s all it is. So, nothing to do with prospective business. The portfolio was still sold at a quite healthy premium, and so, in our view, the risk-adjusted returns have been still incredibly attractive for us. So we will do that trade again all day long, these things happen from time to time. But the position of the portfolio now, I think, is about right.

Now in terms of from here, do we do more debt sales or asset sales? Yes, but only as a regular way matter, like we do them in them in the UK as well. Individually, I wouldn’t call them out, there’s no large asset sales that we would do, but it’s ongoing risk management that you would expect any card company to do. There are specialist funds that are very good at operating in certain parts of the risk spectrum. But these are all very small size, and just prudent housekeeping, I would say.

The DOJ article on Bloomberg; there’s not much I can say on that. The only comment I would make is that, I say this all the time, there’s no new news. We’d love to put these things behind us, we’d love to work out an approach that works for us, and works for those folks at the DOJ, or anywhere else, and there are ongoing, fluid discussions and negotiations. But I can’t say much more than that, unfortunately.
David Lock, Deutsche Bank

I’ve got two questions please, the first one is the old Non-Core business. You folded that back in and it clearly had a negative impact on your Macro performance. I’m just wondering how we should be thinking about how that negative effect phases out over the coming years? And also, the costs associated with that; obviously I would have thought the derivatives platform would be quite expensive, is there a point at which that comes off in your 2020 plan?

And then the second question is on retail banking; you talked a lot about digital investment. I just wondered if you could point to any of the revenue potential opportunities in retail banking from that investment? Thank you.

Tushar Morzaria

On Non-Core, there’s probably no change to the guidance we gave, at least for this year. The half-year, and third quarter was pretty much bang on in line with that guidance, and I don’t expect it will be that different for the fourth quarter either. And from that point on, we haven’t given specific guidance for 2018, 2019 and beyond. It’s a bit messy, unfortunately, the comparatives. Depending on what Q1 looks like, and comparatives and all that, we may or may not shout something out, just so people can know what the underlying performance is, and what to project on. But I’m reluctant to do that unless it’s really meaningful. I don’t expect it to be meaningful, but you don’t know until you get there. It should be running off at a good, healthy rate. And the same with costs as well, and that’s projected into our cost assumptions, obviously, for 2019.

Retail banking has been an interesting one because in some ways we’ve actually improved our revenue pool quite sharply, but it doesn’t really show up. Our top line looks kind of flat, and that’s really because the fee side of the business has been put away for one reason or another. We’ve grown our net interest income line, a lot of that through the investments that we’ve put through, but net net it feels like we’ve had a flat top line.

And you guys have seen historically the share of fees and NII, and what it was five, six years ago compared to what it is now; it’s very little in fees. A good example of that, take for example overdrafts; we used to charge for overdraft fees. It was one of the most attractive and highly-accretive fees, but two years ago we stopped doing that. Other banks have now, I think, followed suit, and we’ve had to increase other transactional capabilities, or transactional volume, to offset that competing away those fees.

A good example of that would be personal lending, where we’ve seen volume come through. I think the most exciting thing for us, prospectively, will be this whole idea of... historically, with retail banks, the customers had to come to the retail bank to transact, whether it’s on our App, whether it’s on our website, whether it’s in our branch. Well, this whole idea of using APIs, particularly with Open Banking, means we go where our customers are, and we’ve launched several of these pilots already, with retail. So, for example, you’re on a retailer’s website, buying something, and you want financing for that. If we know you’re a Barclays’ customer, through the Barclays’ API, that can be integrated into that website, and it flashes up – ‘do you want to finance this through a personal loan at Barclays which you are pre- approved for’, or even you can get immediate approval for a credit card or something like that, if we know you as a customer in our retail bank.

So, those are the things that are quite exciting for us, and the pilot studies that we’ve done are pretty interesting. It’s one of the interesting things about Open Banking, our ability to be present where the customer is. Now, we’re not naïve about this, there are a lot of fintech companies that are trying to do clever things around this, but we feel pretty confident in our ability to out-pace many of our competitors in this, and feel we’ve got a better digital product than many of our competitors do today. But it’s a bit of an arms race, it doesn’t mean it will be better in six months’ time, no-one’s standing still, everyone’s trying to do their own thing to get better. But at the moment, everything we see, our results should come through. It’s a bit frustrating as a commercial matter because other parts of the business
just get competed away, or regulated away, quite frankly. But yes, at some point that will plateau out and you should see healthy top line growth.

The other part where you should see top line growth, of course, in years two and three, is the mortgage business coming in. Obviously we’ve grown the mortgage book by £2 billion in this quarter, we’re still cautiously growing. Mortgages, like everything else, have a slight j-curve associated with it, but it should bolster our interest income 2019 onwards, and as we continue to grow the book.

**Jason Napier, UBS**

I think one topic probably approached two different ways, and it comes back to cost – the market reaction to the new goals, which bring clarity and yardsticks we can analyse, was interesting in the sense that we didn’t really believe in revenue growth of any great magnitude beforehand, and at the mid-point of the new cost target, it’s only £150 million more of costs. So to the extent that revenues were to come in somewhere around consensus for 2019, would it be your expectation that costs would come in lower?

And then, secondly, if a big shareholder wanted to sensitise estimates for capital markets revenue, so markets plus advisory being, say, 10% worse, you’ve invested quite a lot of balance sheet in restructuring the way compensation amortisation works; what is the marginal cost income ratio that you’d apply to that revenue delta, either to the upside or the downside?

**Tushar Morzaria**

So I think the overarching answer to your question is absolutely, if the revenue environment isn’t as good as we would expect, we would manage more lines of our P&L, and costs would be one of them. Apart from, if it’s an immediate shock, something happens and revenues dissipate for whatever reason, then the one line you’re left with is the comp line. And Jes, I know for sure, he did that in the third quarter, will flex the comp line down as much as is required. He needs to be a little bit sensitive to what the prospective effects of that will be, but I think he’s quite happy to say that most people overplay the prospective risks, and then he would believe. So, I think in our variable comp line – you’ve got to remember, we’re not like the US houses, where we still have a fixed versus variable ratio that’s skewed towards fixed – but in that variable [element], if we were to reduce, say, 100 units of compensation, about 80 units of that would flow through immediately, whereas before virtually none of it would flow through.

So you should see that sensitivity coming through, particularly as we go through the end of 2017 and end of 2018, the double-income effect, as we unwind the deferral arrangements. It’s [relatively] clean in 2019, so that becomes a real lever that we can deploy. Aside from that, if we were to sit in here this time next year, and we were less optimistic about the revenue environment or whatever, obviously you’d expect management to start looking real hard at areas at which it would resist spending, or indeed, go the other way. So, yes, you would expect some sensitivity in our cost line. But if you’re looking for an, ‘for every additional pound of revenue, how much would we pay out as variable compensation’, I wouldn’t throw that out.

**Jason Napier**

I should know these numbers in my head, I’m sure, but the variable as a proportion of total comp for CIB would be how much?

**Tushar Morzaria**

I don’t think we’ve disclosed that. Well, actually, what you can get is if you go to the Annual Report, and look at the Director’s remuneration – it tells you exactly what the variable pay is for the CIB, and you
could probably back it out from there. I’m just a bit reluctant to throw out a number that we’ve not yet disclosed, but you could probably get enough by looking at the Rem report.

Andrew Coombs, Citigroup

Just a couple of clarifications; one pertained to the DOJ. Can you just confirm what’s embedded within your existing litigation for revisions? I think it’s close to zero, but we’d like you to confirm. And, attached to that, you mentioned at the start of your speech that litigation and conduct is unclear, but have you embedded anything for that into your tangible book value per share number that feeds into your RoTE targets?

Second question would be on the ESHLA reintegration into Barclays UK. You talk about a 30 basis points hit in Q3. Your full-year [BUK] NIM guidance is >340bps, or >360bps excluding [ESHLA] if you annualise it, which seems to imply a 40bps [annualised impact] from ESHLA. I know it’s only 10bps [difference], but it does make a difference, so which one is it?

Tushar Morzaria

On DOJ and tangible book, if we’d taken a very substantial provision we would have called it out. So you can infer from that probably what the answer to your question is. We have absolutely made assumptions around what we expect conduct and litigation to be, this year, next year, and beyond, and that’s embedded into our tangible book value projections. So when I talk about a desire – even in the context of IFRS 9, and to an extent there’s conduct and litigation over that timeframe – of preserving and growing tangible book value, that’s with that in mind. And of course there’s a range of outcomes that may or may not happen with conduct and litigation.

With the UK NIM, I guess you’re asking me to be more precise than I want to be, partly because of the rate change and stuff like that coming through, and we’ll learn more about how that goes. By and large, maybe to try and be a bit more helpful, you’ve seen us, all things being equal – so forget rate rises and whatever else – you’ve seen the UK NIM broadly stable for some time, and probably a little bit better than maybe most people thought, just very marginally better. I think that’s probably a reasonable assumption to make, all things being equal, as a prospective outlook. We do have our structural hedges rolling into lower fixed rates, depending on what, obviously, the long-term rates will be in the future, as to what level they lock into, but there will be a general decline that we have experienced in that, offset by our ability to capture NIM through our asset pricing and liability pricing.

The ESHLA dilution of that, you could probably even work it out, actually, because I think we’ve given you the notional, and you can see what the fixed rate is, with our own funding costs. You could probably work out the dilution, but hopefully that’s enough to help you model the NIM.

Kian Abouhossein, JP Morgan

You were CFO of the CIB of JP Morgan – as you compare it to the CIB here, what are the easy deltas, or what are the triggers that you can see potentially to get to an improving revenue outlook?

Tushar Morzaria

There’s nothing easy about this business, so I’m not sure there’s a lay-up. If it was that easy, people would have figured it out by now. I do think that one of the things that has become clearer to me is the relative scale of these franchises does make a difference. So, when I was last at JP Morgan, the whole industry was looking to re-size itself, and we did our own thing, perhaps a little bit more extreme than others, but nonetheless, a lot of franchises were re-sizing and trying to get to the right size for the future revenue outlook. There are now different people in different parts of that re-sizing, and some franchises are indeed growing. And the difference in scale – it’s the same as the retail banking scale – is an
advantage, [it’s important that] we don’t get to a scale that makes it very hard to capture the levels of profitability that we would like. When I was at JP Morgan, even though it was re-sizing, CIB RWAs were probably bigger than the entirety of Barclays RWAs, it’s a different scale, they’re not really comparable franchises in that sense. The JP Morgan franchise, in those days, was trying to be a world champion virtually everything – in Indonesia, in Vietnam, the United States, London – that’s not the Barclays thing. It’s a much more selective space for us to be in. We don’t enjoy that scale, nor could we profit from that scale.

Kian Abouhossein

Maybe putting it slightly differently, if I look at slide 23, where you’ve outlined the plan of expansion, I’m just trying to understand, frankly it all looks the same, these slides, compared to if you go to Goldman Sachs, or you go to any other, Citi, or JP Morgan investor day. What is it that will really create the delta for you in terms of gaining that, because ultimately it looks like it’s market share gains that you are assuming?

Tushar Morzaria

I’ll go back to the opening comments. I think for the first time, the deployment of financial capital smartly is something we haven’t had the flexibility to do for some time, and that’s really driven by demand of clients, rather than some banking or market share gains, or whatever. Obviously we get our fair share of that, but just what clients would like us to do with them, that is different.

I do also think there’s a human capital [element]. For the first time we’re really, for five years or so, adding these levels of seniority into the company. And I think also, probably the first time that we’re prioritising income growth in these kinds of businesses whilst keeping our costs trending downwards still. And these are different things; we’ve been in restructuring mode for some time at Barclays, and the investment bank has been right at the nub of most of that restructuring. One thing we’ve learned over this journey is that although we’ve successfully cut costs dramatically – when I first got here I think it was about a £20 billion cost base, we’re going to end this year at just over £14 billion, and these are substantial changes in cost – revenues have declined by at least as much. So one thing that has been a very difficult thing is to try and get the positive jaws working, while at the same time shrinking the company.

Martin Leitgeb, Goldman Sachs

Just a question on the ring-fence in the UK and how the set-up of a ring-fence is going. I was wondering if you could update us on a few things, the first one being what is the total cost Barclays has spent so far on the ring-fence, and how much do you think it will cost in terms of set-up costs? And how should we think about ongoing costs?

And you mentioned the Service Company bringing in a lot of efficiencies, is that true for operating expenses, or equally for the funding cost side of those entities?

And, lastly, when do you think we will get financials, or rough financials, for those entities; the ring-fenced and the non-ring-fenced bank? Will we have to wait until around the end of July, so once you report the second quarter results, or do you think we might get something earlier than that? Thank you.

Tushar Morzaria

The cost is in line with the budget we gave out a couple of years back, so cumulative costs of about £1 billion for both US and UK ring-fencing. We’ve also got to do European ring-fencing, I guess, now as well, but that’s covered in our cost projections that we’ve given out. In terms of ongoing cost, again included in our cost projections, but there’s no doubt it’s more expensive like for like to run multiple
banks than a single bank, you get some dis-synergies. Definitely true on the funding capital side, you lose some flexibility. On the opex side, that of course is true; if you’ve got more than one Board, more than one treasury operation, various things that you’ve got to comply with the ring-fencing requirements, but having said that, our Service Company, I think, deals with that in a very neat way. So, by looking as much as we can horizontally across the company, where it’s unavoidable in efficiency, we can offset that by efficiencies elsewhere, as you know. Whether it’s management of contact centres in one place, fraud, on-boarding, whatever, all the various transaction cycles that we have.

In terms of financials, I guess that’s a TBD, certainly not before the interims of next year. And still thinking through, there’s a statutory matter, what we’d have to disclose at those interims, but not before then, I don’t think. We only actually operationalise the ring-fence in the Easter weekend next year anyway, so that will be the earliest point it will be there, the half-yearly reporting, if that’s something we choose to do.

**Martin Leitgeb**

And just a follow-up, in terms of capital [requirements] for those entities, they’re roughly 13%, unchanged for both of them, I assume?

**Tushar Morzaria**

Yes, on day one that’s our current assumption. There are some things we need to learn, things like what the Pillar 2A components for the UK bank will be, and indeed the non ring-fenced bank. As best as we can see today, though, on day one, roughly similar, and it will evolve as the passage of time as our overall capital requirements evolve. But certainly on day one that’s our expectation.

**Raul Sinha**, JP Morgan

Firstly on the RWAs in the investment bank, CIB was about £185 billion. As we look out to 2020, can you maybe quickly address the moving parts? You’ve got the trading review coming in. Do you think the mix of the RWAs in the bank actually shifts a lot by 2020? Do you anticipate RWA add-ons in the retail bank as well?

**Tushar Morzaria**

Yes, by 2020, I don’t think the Fundamental Review of the Trading Book will be in by 2020, so I think that’s maybe beyond that. I may be wrong on that, but I think there’s certainly a chance it goes beyond that. So, put that to one side. Other rule changes, the only other really significant rule change would be regarding the output floor, and again I don’t see that this side of 2020, possibly even later. I think that’s more like a CRR 6 type concept, rather than CRR 5.

So I think those things are probably a bit further out on the horizon, so I don’t expect any material rule changes. There will be regular way stuff that happens all the time, models get reviewed, get improved, whatever, those kinds of things, which you guys don’t see so much about. But big, wholesale changes to the rules, I don’t see an awful lot between now and 2020, but we will see.

**Raul Sinha**

Very quickly, just on the US versus UK split within the businesses, previously you’ve talked about 50% of the revenue in the IB being in the US, but obviously I think equity derivatives are on the slow side, they’ve been quite weak in the US. Should we still use 50% as an operating assumption?
Tushar Morzaria
I think as a yardstick, yes, we are, and I think always will be, larger [in investment banking] in the US than Europe. So at least 50% US, I would say.

Raul Sinha
And then cards, should we think 90% is the US, in international cards?

Tushar Morzaria
You mean the Consumer, Cards & Payments segment?

Raul Sinha
Yes.

Tushar Morzaria
No, we haven’t given the splits, but you’ve got the Payments business in there, which is our merchant acquiring platform, and that’s a decent business. We’ve got our Private Bank in there, our offshore banking, like the Channel Islands, Guernsey etc., as well as US cards. Although US cards are important, it’s not up to the 90% in terms of P&L. In terms of balance sheet, it’s more balance sheet intensive than the acquiring or the private banking business, which is more of a liability-heavy business.
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