

**Barclays PLC Q4 2018 Results****28 February 2019****Sellside Breakfast Q&A transcript (amended in places to improve readability)****Tushar Morzaria, Group Finance Director**

In terms of introduction, I won't rehash the fourth quarter. It's an important year for the bank in terms of meeting its financial objectives. We are very focused on achieving the 9% RoTE target. We don't have a crystal ball on what the economy will be like, and we are obviously going to be exposed to the ups and downs of the economy, but we do have a number of self-help measures that give us a degree of confidence that we should be able to navigate through most outcomes.

You're all familiar with the expensive legacy capital instruments that we redeemed at the back end of last year, and we have some other expensive crisis-era debt that's due for call this year. These are reasonably straightforward additions to last year's numbers. We had the £140m GMP pensions charge, which I don't expect to be recurring.

On cost, we have guided to a range of £300m which we are very comfortable flexing within. If the top line is more challenging than we expect it to be, we would look at further cost flex, as and when appropriate.

We have obviously taken an additional £150m impairment charge, which is an overlay as we anticipate a weaker UK economy over the course of this year. If that were to materialise, the provision was appropriately taken, and it were not to materialise, then we would probably have over-provided and we would release that at some stage.

Adding all of those things and a couple of other points up will get you to the best part of £1bn pre-tax self-help measures. That gives us a degree of confidence that we should be able to navigate through most paths that the economy gives us. Of course, it would be hard for us to respond in time if we had something that goes off track towards the back end of the year, as options become more limited. But for the moment, we feel comfortable we can navigate through most paths.

**Raul Sinha, JP Morgan**

Could you give us some colour on the Treasury drag inside the divisions? On the call you called out £60m in CCP. Was there something inside UK retail as well as CIB, just to get a sense of what the run rate is?

Secondly, a couple of questions on CIB. The corporate revenue line picked up nicely in Q4, and that has been quite sluggish through the last year, so I was just wondering whether you think that's the run rate going forward. And then more broadly, CIB has done quite well in terms of reducing RWAs – I think we are at the lowest point in terms of RWAs for a while. Should we expect to see more uptick in Q1? You haven't commented on it, but the rest of the industry is calling Q1 to be down.

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

On the Treasury drag, you will all be familiar that we called out £60m in CCP. Taking one step back, just so you are familiar with how Treasury works in a post-structural reform world, we have two main banks, our UK bank and our International bank. CCP and CIB sit inside our International bank – Barclays Bank PLC is the legal entity name of the International bank. The liquidity pools are managed in the legal entities, which is one of the strict requirements of structural reform. Prior to ring-fencing, we had a single liquidity pool that we managed for the entire group. We can't do that anymore. Now we have two discrete pools, International and UK. In the UK bank there was really no drag to call out, as we run a lower risk profile liquidity pool, and it is also much smaller. In International, a single pool is managed and then allocated back down to CCP and CIB. There was a drag in CIB in Other Income line included in there. Because CIB is much bigger relatively, it doesn't show up as much as in CCP. We called it out specifically in CCP because we don't have another income line in CCP.

Going forward, I would guide that to zero. There will be pluses and minuses, for example timing differences on funds transfer pricing. I think when you are modelling things out, your business income line as stated is probably the line you should be projecting out. I don't think there is a permanent drag, or indeed a permanent positive, it's just ebb and flow. To the extent it is a significant positive or negative we will call it out, but on a trend basis just assume it's zero.

For Corporate revenues, it's a noisy line. You will be familiar with this because of the hedging that goes on in there. The hedges are marked to market, the Corporate line is an accrual accounted business, so you do get that noise in trying to align the accounting. I would put the pickup in revenues down to hedges making money rather than net interest income improving. A better way of looking at it maybe is to look through an average of three or four quarters, so the hedges won't have a bias to it. They will be positive or negative, so just look through that. To the extent it is a significant positive or negative we will try to call it out, to give you a sense of what's going on.

On RWAs, Q4 is always seasonally the lowest point, somewhat driven by the Christmas and New Year period, as settlement balances run down and trading activity tends to be low. Q1 tends to be the high point for RWAs, so even though some of the US banks have called out a weaker Q1 trading outlook year on year, I'd be surprised if RWAs are lower than Q4. That would be an enormous decline, and I don't think they're suggesting that, even on the percentages they've quoted out. From what I can tell, it still feels better than Q4, so I expect RWAs to go up in the CIB. I think it's a better to look at RWAs on a seasonal and quarterly, year on year basis, because it does tend to be busier in the first half of the year and less busy in the second half.

There are other seasonal items in the capital line you should be aware of, like share awards that go through in the first quarter, usually in the March period, as well as a couple of other technical factors. I think you've seen that traditionally in our capital flight path, Q1 quite often has the lowest capital ratio of the year. We are very comfortable with that because it tends to be a very good business quarter so we will use capital where we can to generate good returns, and then over the course of the remainder of the year the seasonality would reverse some of that trend.

### **Raul Sinha, JP Morgan**

I guess the question was more in terms of what is the ongoing rate of RWAs in the CIB. When you merged in Non-Core you put in some RWAs from various long-dated books. Should we expect year on year declines in the CIB RWA base, before market risk kicks in, or should we expect it to go back flat?

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

On a trend basis, we don't expect RWA trajectory for CIB to grow. I would expect it to stay broadly where it is, but taking into account the seasonal ticks up and ticks down. We are comfortable with the CIB RWA

allocation that we have. We would like to grow RWAs, and that will be biased towards the consumer side, so CCP and BUK. They are not as capital consumptive so it will take a while for RWAs to grow, but you should see CIB RWAs stay where they are, and RWAs in the rest of the bank increase over time.

In terms of regulatory inflation, there are some developments on the horizon. You'll be familiar with them, especially if you're considering lease accounting in IFRS 16, there'll be slight changes in securitisation rules, and there'll be impacts from the PRA change to default definition for mortgages. IFRS 16 and securitisation will take place this year and the mortgage models will be next year, so I haven't guided on that inflation. I wouldn't say it's a big inflation that I feel like I'd call out, but it's there, so you should take that into account when you're thinking about the RWA shape of the company. I would say that any inflation we see in the CIB will be paid for within its existing allocation, so we will readjust as necessary to make sure we don't utilise more RWAs in the CIB in aggregate.

### **Martin Leitgeb, Goldman Sachs**

Could I just pick up on the comment on growth and focusing on the consumer side? I was wondering if you could talk a bit more in terms of how the growth would split between International and UK going forward. I got the impression from the presentation that growth would be focused on Europe, payments, consumer, particularly in the US. So is the growth mostly coming from the International business rather than the UK?

And then to follow up on the Investment Bank performance. You called out share gains you achieved in 2018 in both FICC and Equities – leading to Barclays performing well compared to US and European peers. Going forward into 2019, would you expect those share gains to continue? I think part of the share gains were driven by investment in capital, people and technology – would you expect those to gradually fade or to continue as well?

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

On the growth question, I think we'd like to grow the consumer side of the business both in International and in the UK. I think in the near term it's more visible to see growth in the international businesses and that's somewhat driven by the economies they're operating in. The US business is smaller relative to the US economy, whereas we are obviously a very large business relative to the UK economy, so we are probably less likely to outgrow the UK economy versus the chances of outgrowing the US economy, given we only have 2% of the US credit card market. The other interesting fact is that we are very focussed on capital light growth initiatives – one that we haven't talked about too much is Merchant Services. We have a fantastic business here in the UK, and it's something we are playing around with in the background thinking how we can take that across borders. We have opened up Merchant Services in five European countries. We haven't talked much about it – and the reason is that these things have a reasonable gestation period. Just because you open up now doesn't mean it's going to generate profits in the short term, but over a multi-year time frame that can be quite exciting.

In the US business I think there's growth in the near term, focused on Cards, and you can see we've been growing our receivables in mid-single digits, with income tracking alongside. I think with the right conditions and the right outlook on the economy we feel comfortable growing that at 10%. However with the card business you've got to be a little bit careful – when you open accounts now you're probably less concerned about today's economy and more concerned about the new accounts seasoning in 18 months. We feel pretty constructive about it, but as you get longer and longer into a cycle you've just got to be a bit more cautious. We focus the growth in the US much more in the airline type portfolios and less so in a portfolio like Uber, where we could grow really quickly but we will pick up different types of borrowers as it's a much broader cohort. With the airlines we've got a very mature, well understood consumer pattern so we could grow a lot more. FICO scores tend to be higher, and there tend to be a lot more transactions. If you're a little bit nervous on longer term credit conditions, that's a much better risk reward book to grow.

We would like to grow other parts of the US business in the medium term. We only really do cards in the US – we don't do instalment lending, we don't do personal lending, we don't do point of sale finance, we don't do store cards, we don't do white labelling. All of these are very adjacent to what's now a meaningful US card business. It's already bigger than our UK card business in terms of receivables, so I think you'll see us investing there, but again don't think of this as short term profit pools. You should expect us to talk a bit more about that in the medium term.

The other area we like in international is the corporate business. We are very focused on getting a better proportion of fees for the lending activity that we do, but away from that we also like the idea of trying to take advantage of Brexit, as we are a Euro-clearer, connected to the Target 2 payment structure and SEPA. We therefore have a large market share of UK corporate banking capability to clear Euros as well as Sterling, and obviously we have the US next up as well. It starts getting quite interesting - these sorts of corporates don't need a physical footprint in Europe for them to take advantage of these banking systems. We've won a number of accounts recently on the back of that. It's not something that is going to dramatically change today's revenue picture, but it's quite interesting as that momentum builds.

On the UK side, I think you'll see us focus growth on secured mortgages. We grew just under £5bn last year and we'll continue to do that. We haven't grown unsecured in almost three years, it's something we've kept under review. I think we'll probably need to have much better certainty in the UK outlook before we look to grow that book, though we are consistently keeping it under review. There is also the transformation of UK banks from being the old branch-based, product-led offering to becoming much more customer-focused digital sellers. There is an enormous transformation going on behind the scenes with the Payment Services Directive aggregators and various other things. We are planning a lot of investment to completely reposition that business, and we feel very optimistic about the longer term prospects, but again I think this is more medium term rather near term.

In the UK Bank, because of that investment profile, you will probably see us with negative jaws in the first half, and then positive jaws in the second half. We are targeting positive jaws for the full year but a lot of these investments are front loaded in 2019, so if you're thinking about the shape of that cost profile it's something to bear in mind.

In terms of market share in the IB, we are very pleased that we were able to take market share both in Sales and Trading, and for that matter in Capital Markets and Advisory as well. We are nudging very close to that fifth slot in the US, according to Dealogic, so that has been good, but it's a very competitive market and I don't think you can just naturally extrapolate. I think you've got to get up each morning and keep on doing everything to the best of your ability to keep on making progress. It's not a repeat – just because you did a good job last year, it doesn't mean you're going to do a good job this year. Having said that, we are confident that there is momentum which will carry us well into 2019.

On the Investment Banking fee side, we are probably a bit less diversified than many of our US competitors, so that means when certain industries have a lot of investment banking activity, that suits our coverage model well. We are, however, a little bit light on some areas compared to our US peers, like tech, and even biotech. That has been a really active area for Equity Capital Markets, and we've probably underperformed a little there. We are probably not as well diversified as we would like, and it's going to take us some time to diversify.

On the sales and trading side, we probably have the diversification that we like, so we don't feel underweight or overweight in any area in particular. I think we feel set there. Q418 was probably the worst sales and trading quarter for most banks for a decade if we look at the historical revenue profiles. We are vulnerable like everyone else to the size of the revenue pools in any one quarter, but we'd like to think that whatever the size is, we will pick up more than our fair share. It's a tough business, and there's no secret that we've uncovered that no-one else has. We're all working hard for the same business.

## **Jason Napier, UBS**

Just coming back to the guidance around cost flex for 2019 and the targets, that's very welcome. Perhaps a very big part of the reason why you'll get negative jaws in the first half and positive in the second is base effect. I am wondering whether you could give us some sense of bringing forward spend like real estate rationalisation, Brexit preparation, structural reform etc.? BUK costs were up double digit quarter on quarter in Barclays UK and it's really hard to forecast, so any guidance on the things you've called out in colour but not quantified would be appreciated.

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

Yes, we definitely took the opportunity to accelerate some of the investment programme, and actually a lot of the charges we took in the fourth quarter in the UK were efficiency-orientated charges. You will see a meaningful number of branch closures this year. We're doing that quietly, but in 2013 we had around 1600 branches compared to just over 1000 now. We've been closing two to three branches a week, and we will accelerate that, so you'll see a reasonable number of closures. On top of that, the business is becoming more digitalised and there is rationalisation across call centres, so quite a meaningful headcount reduction in BUK. You may have seen some press articles on the closures, and discussions we have been having with the union on fairly meaningful staff reductions. A lot of these costs will come through in the first half of this year, which is why you will see quite meaningful negative jaws. I don't want to give you a number, but there is a significant reserve for that in the second half as well. We are definitely targeting positive jaws for the full year, but it will be very lopsided in terms of shape. I think from that point on, the whole nature of the UK will become more digitised and will see the benefit of our efficiency measures. Regardless of whether top line stays flat, we'd like to see some positive jaws. It feels like there's a hump that we're just getting over and see that come through.

## **Ed Firth, KBW**

Could I just ask you about the first quarter and how you see the investment banking environment? A number of US banks are now giving pretty clear guidance, and I guess it's not looking that pretty – certainly not when I look at what JP Morgan said yesterday. I am not asking you to tell us what you're doing, but can you give us some sense as to whether there is any reason why you should be different to your US peers in terms of the broader environment? FX is probably not going to be a big help for you, year on year, given the strength of sterling recently, so that might be one variation. Additionally, how should we be thinking about flex in the cost target? If Investment Banking revenue is materially lower than expected, do costs come down? And in terms of 9% RoTE is that still achievable or do we say that it was based on a normal market and this isn't a normal market, so we should be seeing something lower?

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

I won't comment on the trading environment, but JP Morgan is a bellwether stock in the industry, so if they're seeing revenues go down, I imagine that's probably what a lot of other banks may be experiencing as well. We are slightly different these days – they probably have a larger emerging markets footprint, and we don't have any. They probably still do some commodities stuff that we don't do and vice versa. It's really hard to look directly across, but they are a bellwether, so I'd be quite surprised if anyone is going to be up a lot if they're guiding down.

In terms of what it means for us, the cost flex is important to us and if the revenue outlook is weaker for the investment bank, we will absolutely bring the cost down. We've spent quite a bit of money in 2016 to allow our compensation accounting to align with the way revenues go up and down, so you get a slightly better symmetry. You've seen in our disclosures the overall compensation pool for the bank is £1.6bn, so if the CEO is feeling brave enough, then he has a lot of cost flex there if he can manage that through. I

think there's a continuing rebalancing of employee proposition and shareholder proposition as banks have restructured, and we will use that appropriately and manage through that. Of course, there are the investments that we talked about earlier, and there is volume control there as well. A good example is personal lending in US Cards – it's a very adjacent business, it's just unsecured credit on a fixed payment schedule, rather than a revolving credit schedule. We don't have to do that this year, and whether we do it this year or next year, it isn't going to make the long term proposition of what that does any different, so that's a volume control we can absolutely deploy.

It goes back to my earlier point – if we're having to take action towards the back end of the year, then there is only variable compensation left, but if we have to take a decision here and now, with ten months of the year to go, then we can slow down, curtail, re-phase investments. One of the things that's important for this management team is stewardship of the bank – whoever runs this bank after we're all long gone, we want to leave them with some of the benefits we had. We inherited a really good US Cards business and that has grown quite significantly over the last handful of years. We want to leave a lot of growth opportunities on the table for the next management team to pick up. We want to invest, but we will absolutely balance short term profitability targets and the need for medium term investments, and we will flex that appropriately.

#### **Ed Firth, KBW**

To clarify then, we should look at the cost target as a normal market cost target, and if the market is materially worse, particularly in the investment banking world, we should expect that cost target to come down to maximise profits.

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

If necessary, we will guide to that. We will have to do what's appropriate. There's a balancing act with everything – just slavishly hitting a 9% RoTE under all circumstances can lead to a pretty bad 2020 if you're not careful, but we are very focused and keen on getting to the right profitability target, so I think under most scenarios we will use the levers we have available to us.

You talked about FX – that will of course depend on March. At the moment FX is probably a bit of a tailwind. From memory I think it's a little bit of a tailwind and that's what it will be. Sterling has obviously strengthened a little bit at the margins, so probably less of a tailwind than it was in January.

#### **Ian Gordon, Investec**

You talked a lot about cost flex. To the extent that conditions in IB are weaker than your base case, what RWA flex do you have and where? Leading on from that, at Q318 you obviously gave us a pro-forma CET1 ratio of 12.9%, taking into account the 0.3% of debt redemptions ahead of the stress test in the pro-forma. If pro-forma 12.9% was a number the regulator was happy for you to solve to ahead of stress test, why is stress test arguably a binding constraint on buyback?

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

That is a good question on RWA flex. There is absolutely RWA flex there. You need to run a certain amount of balance sheet to be a sensible counterparty for people to be facing, and a sensible bank to be pitching for underwriting, so it's not something you can just turn on and off, but there is RWA flex. If activity levels are low and sluggish and there isn't much business done, you would expect RWAs to potentially drift down as you saw in the fourth quarter.

The other thing with RWA is that it depends on the reason why the outlook is sluggish. If it's because it's a very choppy market and activity levels are low because people don't want to participate in a choppy

market, these are pro-cyclical calculations. So you've got to be a little bit careful that they're not static calculations. They will pick up dislocations in the market, and that pro-cyclicality will impact that number. You saw a couple of European banks that were impacted with that in the fourth quarter.

In terms of whether stress testing is a binding constraint for capital redemptions, the short answer is that it's not a binding constraint, but the stress test is different every year so you don't know what it is. We get our instructions in March. Last year was a Brexit type scenario and there was a big focus on learning more about IFRS 9. It's a very targeted piece of work that the Bank of England does and I don't know what they'll do this year. They've tended to vary the stress test in different years depending on what they're most focused on. This year there'll also be a biannual exploratory stress, the BES, which isn't stress testing in the more traditional sense where there's a pass or fail mark. It's more of a qualitative test to understand how, over a much longer term, a bank's business model could be impacted by certain scenarios. The one we had two years ago had a much lower for longer rate environment, intense pressure on asset margins, having to pay off deposits, it was a challenging scenario. The Bank of England will obviously use that to inform their views on bank capital levels as they try and look forward.

We feel pretty good with the capital level that we've got, and we've had the flexibility of increasing our dividend. We've also used it to redeem capital instruments, and still feel the capital levels that we have today are sufficient to continue to allow us to do that. We will learn more when we get the stress testing structure and find out whether there is something different that they want us to look at which makes us pause for thought, but I'm not expecting that.

#### **Raul Sinha, JP Morgan**

Just a follow-up on the tax rate – are you heading lower than your previous guidance? Can you talk about the changes to the AT1 coupon, in terms of how that will impact the tax rate as well?

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

I've given guidance on it – it's probably somewhere in the low to mid 20s. I think I said mid 20s last year, so it is a touch lower. We didn't end up paying any BEAT last year, and I don't think we will be paying BEAT this year, so I'm comfortable guiding to low to mid 20s, and that takes into account all the capital redemptions. Each one of these has its own tax aspects associated with it, so low to mid 20s is all encompassing.

#### **Chris Cant, Autonomous**

Could I just ask you on leverage again? On the call you talked about potential for a bit of a bounce back on your leverage exposure into the first quarter. Could you give us a sense of what the leverage balance sheet is for the investment bank? I'm just trying to think about the risk intensity of that business. I think it was a number you were going to consider giving us, when I asked that a few quarters ago - it would be great if we could get a figure there.

You also said on the call that you were managing the balance sheet of the business to ensure that RWAs are the binding constraint, but if I flip that around, implicitly you're accepting that if you weren't taking actions on leverage exposure, leverage may be the binding constraint. Are you actually accepting that you're fairly finely balanced there? I'm thinking specifically about the £50bn leverage capacity you deployed. You used to say that was going to be a couple of hundred million of additional revenue – does that now drop out if you're cutting those leverage assets back again?

**Tushar Morzaria, Group Finance Director**

To make sure I've got it right – the question is around the bounce back in leverage in Q1, and whether we can call out what the IB leverage exposure is, a request you had previously. Yes, it will bounce back – again, it's a little bit like RWAs. It's a seasonally good quarter for sales and trading typically, and where we have leverage capacity, it's good for us to deploy that to profitable purposes. We've taken your request, and it's a reasonable request, but we haven't chosen to disclose it yet.

One of the things that is very helpful in my job is that when you construct your legal vehicles, you do it very deliberately to try to give you as much optionality and flexibility as possible. The Barclays Bank Plc legal vehicle, the equivalent of our international bank, is quite a diversified business mix with one very leverage intensive business, i.e. Sales and Trading activity, and a lot of very under-leveraged or very low leverage intensity businesses, like Cards, Private Banking, Merchant Services etc. We do use amalgam in that entity. It's the entity that is regulated and we do think there's some real synergies for mixing businesses with different RWA densities to try to get the best of all worlds, and where we have leverage capacity to put that into productive uses. Actually, the investment bank itself has a relatively low RWA density, so you can get that profit in the cards business as well.

This is why I have always been a bit cautious. These things are regulated at an entity level and managed at an entity level, rather than a pure product line level. We want to run the bank as efficiently as we can with capital. Our objective function here, as you pointed out, is to try and constrain ourselves through RWAs, but ensure we never go offside with leverage.

When I go through where we are on a capital basis each week, we probably spend the majority of time talking about where we are on our RWA trajectory – where we think we can go, where we'd like to go. Then after that, we make sure we are not getting too tight on leverage. If we have capacity, I'd rather deploy it, because usually the deployment of leverage itself tends to have regulatory risk associated with it, so it's pretty much like an afterthought for us. This is how we've managed leverage, and it's more complicated now as we have a lot of entities – the Irish bank, the UK bank, the IHC, Barclays Bank itself, so it's a complicated thing to manage, but we've specifically grouped businesses in those entities to try to eke out as much of those synergies as we can and give us as much flexibility as we can. At the moment, however we look at it, we feel pretty comfortable – whether it's RWAs or leverage, whether it's stress testing, regulatory minimums, capital flightpaths to allow distributions or dividends, it all looks fine. We look at it very much on an entity basis rather than on a product specific basis.

**Chris Cant, Autonomous**

In terms of leverage exposure going into 2019, you talked about increasing leverage capacity because you thought you had the ability to deploy additional balance sheet, partly because of the cross business efficiencies that you were referring to. Given the step back, is all of that going to reverse, or is part of that step back structural, and an action you've taken to try to ensure that you're not going to be leverage constrained? The £50bn you said had positive revenue implications – does the step back in leverage balance sheet now have negative revenue implications for 2019?

**Tushar Morzaria, Group Finance Director**

No, I wouldn't guide to that. Think of it like an NII business. It's how much you lend and what margins you get. When I gave my guidance of £50bn, I was probably looking at what spreads were available then. Spreads have changed, and we've actually deployed mostly in the equity financing business, where spreads are wider, and I wouldn't guide to any change in outlook as a result of different utilisations, or deployment, of leverage.

**Jennifer Cook, Exane**

Firstly, just for clarification, I thought that most of the change in your tax rate guidance came from the reclassification of the AT1 tax credits? I just wanted to check whether there was anything else going on there that might benefit your RoTE, because on a standalone basis that won't lead to any RoTE attrition.

Secondly, on Barclays UK secured growth. We've seen drop off pick up quite markedly there since the end of 2017 – in fact, on a headline basis, the growth is stronger underlying once you exclude out some of your transfers. I just want to understand the redemption profile there as we look towards the second half of this year, and maybe if you could share your two year / five year split so we can get some comfort around that.

**Tushar Morzaria, Group Finance Director**

On tax, it's going to get a little complicated. Under current accounting, the tax credits associated with AT1 don't appear in our tax line, but we do include them in our RoTE computations, so the accounting change itself won't make any difference to the reported RoTE. We've already included them, but it will make a difference by lowering the tax charge. I've given the mid to low 20s tax guidance prior to the accounting change. Because of the accounting change, it will go a bit lower again, but that won't affect the reported RoTE. It will affect reported attributable profit, but not RoTE, and RoTE is what we are focused on. Put the accounting to one side, my tax guidance is mid to low 20s, but because of the accounting change it will be lower than the guidance as a reported matter. That additional leg down will have no impact on RoTE.

The second question was on the secured book. I don't think we've ever disclosed the two year / five year fixed product split. So you're wondering how much redemptions are coming through in the second half of the year. I'll say that the staple product has been the two year fixed product, so five-year has been our less popular product. Although it has only been a handful of weeks, it is noticeable that activity levels this year have been quite buoyant – surprisingly buoyant at least in terms of applications so we will see how many of them turn into actual lending.

It was very sluggish at the back end of last year, so maybe there's a normalising effect. I don't know if there's a new level of activity – it's a bit early in the year to say. To your point, I would say that we're seeing much more activity in the five year fixed mortgage market this year than we have seen previously. I don't know if you can extrapolate with such a short time whether consumers prefer that product, so it's something we're monitoring carefully. Having said that, even though the five-year product seems to be getting more popular, the staple product still seems to be the two year fixed, and that's still where I find the majority of production.

**Robin Down, HSBC**

Can I follow up on Ed's question earlier? We can all guess how Markets is going to work out in 2019, but when you think about the other half of the business, we've got the other income line which has the Treasury loss in Q3. How do you see that developing in 2019? And on the Corporate Banking side, if I recall correctly you had some hedging losses in Q2 and Q3, and a little bit of a gain in Q4. We obviously had the RWA reallocation going through in 2018 – how do you feel about that line going into 2019? Is that a line that you feel we can see some growth coming through? What about banking?

**Tushar Morzaria, Group Finance Director**

On the Other Income line, I'd guide to zero for modelling purposes, even though it's a catch all of things that aren't very predictable. Treasury will be zero on a trend basis. Occasionally if you have a small divestiture, or something like that, it would be put into the other income line, but there's nothing I'd call out.

In the corporate business at the moment we are not seeing a big demand for asset growth, so I don't really see that lending line increasing much. It's a bit more complicated because these hedges go up and down, so you should probably look at it on a trading average. Sometimes hedges are profitable, sometimes they are less profitable – they are marked to market because they're not real and not realised.

On a full year basis zero is about all you can predict, because none of us know which way credit spreads are going. It gets messy when you look at the quarterly comparisons – you can get quite striking differences sometimes, but it's not because the NII line has changed, it's because the hedge moved. To your point, I don't see the lending line increasing structurally. We are much more focused on increasing the associated fee line, and in any case, we're not seeing a big demand for assets, and asset spreads in corporate are still reasonably tight, so I don't expect to see much movement there. If we are successful, we should see much better fee line improvement, maybe in Transaction Banking, maybe in Investment Banking, maybe in CCP if we are able to sell more Merchant Services, Commercial Card and Payment services etc. On the Investment Banking line, it's probably easier to model at the margin; you know what our Dealogic fee share is for last year and you can take your own view. Dealogic is not always accurate and they don't always get the fees right, but it's probably the best directionally.

**Joe Hopkins, Morgan Stanley**

On AT1, you mentioned on your fixed income call you want to maintain around the same surplus of AT1 to your current level. Does that mean you wouldn't want to see the absolute level of AT1 reduce even temporarily? Is that bound by leverage and do you have a leverage AT1 target as well?

**Tushar Morzaria, Group Finance Director**

I imagine one of the reasons for your question is that we've got some AT1s due for calling in September. When we are thinking about whether we should call it or not, we look at multiple factors – one of them is the buffer. We only need to run 2.4% of AT1 and we are a little over 3% at the moment. That buffer gives us a lot of flexibility. I don't know where funding markets will be and what the spreads will be, but it's always nice to have the optionality and not be forced to behave in a particular way. We look at it as a reset spread. It's a little bit different for Santander's AT1 – these are only callable every five years, so it's a more complicated choice whether you forego a call or not. If you look at the currencies in which you can issue, sometimes a headline coupon makes it look like a call or refinancing may be very expensive, but it's actually the spread to spot that's the more relevant number and that can be quite different to the headline coupon.

You're right in that it does have some value for leverage – it contributes to the total capital, which is equally important if you look at banking and stress testing. It's not one that most people look at, but total capital is another ratio that's important and AT1 contributes to the total capital ratio. And you can replace AT1 with Tier 2, so you look at the different costs of your stacks. What I am saying is that there is no one reason why you would or would not call that AT1 or run the buffer up or down. We look at it across a whole multitude of measures and make a decision with all of those factors taken into account, and we do that over the course of the year.

**Joe Hopkins, Morgan Stanley**

And do you think that what Santander did changes anything? Do you think the bar is now lower to not call an AT1?

**Tushar Morzaria, Group Finance Director**

They're slightly different to us because they've got a quarterly call as I understand it, whereas ours is once every five years. I don't know whether they will call in the next quarter – but that's not a choice we would have available to us. I think the other thing for us is that primary debt investors are very important, just like the equity investors are, so we would want to behave in a way that is appropriate and consistent with the way they would expect us to behave. The feedback that debt investors have for us will be an important consideration. It's quite a new instrument, we got into this series of refinancing and calls together for the first time as an issuer and investment community, and Kathryn, our Treasurer, is on the road at the moment meeting investors. We want to be a good issuer in their eyes, so we will try and do what's the right thing for both ourselves and them.

**Fahed Kunwar, Redburn**

Your CET1 ratio is at c.13% - should we expect that to keep on building going forward? Other banks have given reasonably tight ranges now, and I appreciate that you think 13% is the right number, but does that keep growing from here?

The second question is around the UK. You've talked about growing the secured mortgage book, on the margin side, obviously competition remains pretty tight, but at the low LTV end that you play in, is there any more pressure on the deposit side or on the asset side now?

**Tushar Morzaria, Group Finance Director**

On CET1, yes we think that around 13% is the right level so you would expect us to be distributing back down to around 13% through a combination of dividends and other measures over the year. Like most of these things, it's just the way the calendar works – dividend is usually a full year decision and repurchases, to the extent they sit alongside a more variable dividend, or special dividend, tend to be announced at the full year as well. It doesn't have to be, but that tends to be how the UK banking sector has gone about doing things.

UK secured, from what we can see, again always a little hesitant to extrapolate too much from only a handful of weeks in, spread compression in recent times is more in the higher margin product. Although we are a little more focussed on the lower margin product we do enough in the higher margin product and so we can see when pricing changes. In the lower margin product, we've probably seen less compression relatively. We haven't seen a bid-up for deposits in aggregate. We have seen Marcus for example, quite a headline attractive rate, and money went across there, but it hasn't really affected franchise deposits. If anything in the fourth quarter we saw deposits continue to grow, whether it was small business, whether it was current accounts, and I'd expect hopefully a healthy ISA season. Maybe for now, we're seeing stabilising mortgage spreads and relatively low deposit spreads, but again we've been here before when mortgage spreads seemed like they were stabilising, but they took another leg down so always reluctant to extrapolate too much.

**Fahed Kunwar, Redburn**

It seems that when the base rates come up, the spreads come down, and when the base rates aren't moving, the spreads stay pretty steady. We've been seeing this for a year and a half now. Why do you think that is?

**Tushar Morzaria, Group Finance Director**

I think last year was an unusual year. There was a large disruptor in the market, and that definitely was in a space where we generally operate, so it was quite noticeable to us. I think it's just more people have their own dynamics – how much liquidity they want, and what assets they want to put that liquidity against. I'm not sure there's any correlation between spreads and base rates.

## **David Lock, Deutsche Bank**

My first question is on the corporate re-pricing. I think it's about a year and a half ago you called out the £90bn of RWAs that were sitting in that, and I think you said just now that the majority of the reallocation happened in 2017. Could you talk about how much further potential there is around repricing in that book? Is the opportunity is bigger than what it was a year and a half ago, or if it is largely complete now?

The second question is on CCP. I'm conscious that it's in one line but it has a lot of different things in it: there's the US Cards business, there's the payments business, and I think you've also got international wealth in there as well. You're the biggest card issuer in Germany, which I wasn't aware of until recently. I wonder if you could talk a little bit about the outlook for those elements? I know they are quite small but I don't think they're really noticed.

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

On corporate, I'm not sure it's any different to what we expected. It's a work in progress. It's as much trying to reprice as trying to get ancillary business, and I think what we've found as we go through it, it's harder to reprice but easier to get ancillary business. It's a journey. I don't think it's something that gets done in one year or two years. It's something that goes on and on. I can give you proof points of where we have been able to reprice, where we've cancelled the agreement, where we've got additional business. What is unique about Barclays is that we have a product offering that is a bit unique amongst the UK banks, because it's not only coming through the standard suite of credit related products that can give fees like Trade Finance, Merchant Capital, Debt Capital Markets etc. The acquiring business, the payments business, commercial cards, for example, are unique offerings for us. As we get further into this, that's a really interesting area for us to link up our corporate coverage bankers with some of these product specialists. It's interesting how our customers have found it in some ways much more interesting having a banking relationship with us, with the potential for us to be their acquirer, or run commercial card programmes or run payroll.

On CCP, you're right that it's an amalgam of a range of different businesses. If we split that out, we will have a lot of little segments that seem small relative to the group, but there are some really fantastic businesses in there. You're right we're the largest card issuer in Germany – it's not a very big revolving credit market, but it generates a very good return. It's one of the largest economies in the world, but you'd be surprised by being the largest card issuer in Germany, how different it is to being 2% of the credit card market in the US, or even in the UK for that matter. What's interesting in Germany for us is not revolving credit, it's very much a transacting market, because the interchange fees aren't as significant, and German consumers tend to use their cards for spending not borrowing. You have the ability to put them into a personal loan very simply, and that product works really well for us. Most of our actual NII is from putting people into a fixed payment scheduled personal loan rather than revolving credit. Our merchant acquiring services business is in there as well, it's very good.

The international private bank is pretty small. We have an office in Monaco and we have an office in Geneva. It's a nice offering, and we've had it for some time. It makes good money but it's not an area that I'd guide to enormous growth potential. It's just a good business that sits alongside some of the other things that we do. The US card business is the big gorilla there really.

## **Ed Firth, KBW**

Could I ask you about the activist? I'm just trying to get some idea of the management thinking, because you've got the AGM coming up. I understand he's looking for a board seat, which management is broadly against. I am just trying to get a sense as to what your thinking is there, because he's obviously got a huge investment himself. Both of you agree on the share price – Jes has said he's not happy with the share price, and I guess the activist isn't happy with it either. You've got a huge board – you've got 15, 16 people on the board, so I can't quite understand what is it that you think is so negative in terms of having him on the board if he's prepared to put the time in?

**Tushar Morzaria, Group Finance Director**

I don't want to say too much on that, because it's obviously a shareholder vote, and it's really for the Chairman to decide on the constituents of the board. We have a new Chairman, Nigel Higgins, starting on Friday, so he will take a look at the board composition and we will adapt if he wants to do that. We have always believed that you don't have to be on the board to engage with us as a company. We are very visible and accessible both to shareholders and other stakeholders that we have, and would welcome as much engagement as people like.

I think we are aligned in terms of wanting to have the company worth more and to be taking care of all stakeholders, not just shareholders. I don't think you have to be on the board to do that. The Board composition is really one for Nigel to think about, so maybe you should save that question for him.

**Tom Rayner, Numis**

Are you expecting a material drop in the actuarial pension deficit? If you are – and I think from the last valuation that might be realistic, do you expect the trustees to allow you a reduction in planned contributions in the next three years?

The second question is on US merchant services. Do you think Barclays has a competitive advantage in that area versus the incumbent US players?

**Tushar Morzaria, Group Finance Director**

On the triennial, the negotiations will begin in September 2019. Anything can happen between now and September of course, but it was about £7bn or so when we published the deficit at the last triennial in September 2016. I think the last calculation we gave was probably closer to £4bn or so, but it could go back to £7bn. It feels like there's a good chance it will be meaningfully lower. The accounting measure is actually in a fairly healthy surplus.

It's very prejudicial for me to speculate on whether the trustees will be comfortable with a lower repayment or a deficit reduction schedule. All I would say is that the trustees have been extremely focused on ensuring that the best outcome for them is to make sure that the bank is in the strongest financial position it can be, while also discharging their own responsibilities, and at the last triennial the deficit increased in size, but near term payments actually reduced. I think it is a good example of the trustees taking the longer view that if it's good for the company it's good for them. I can't say more than that, but they've been incredibly supportive and very helpful and we don't want to take advantage of that, so we are very keen on having the fund as fully funded as we can, without putting the company under any unnecessary strain. I think we are all aligned on that objective.

On US merchant services, do we have an edge? I think we have no edge in going around selling swiping terminals. However, in the world of payment services, particularly with e-commerce, things are changing quite a lot. A lot of this is omni-channel type activity – a lot of payment gateways are becoming the profitable layer on top of the actual payment side, so it's becoming very interesting. We are really good at that in the UK and I think it's just a question that we have for ourselves – is there IP there? The UK's payments market has become quite sophisticated, perhaps because of the size of the country, as well as the number of banks. Is there something we can do in a very simple way in the US and in a low risk way? I think there is, but I think this is over the medium term, not in the short term. I don't think it's going to be generating revenues this year or next year – it's a medium term objective.

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