

Barclays PLC Q4 2018 Results

21 February 2019

Results call Q&A transcript (amended in places to improve readability)**Rohith Chandra-Rajan, BAML**

The first question is on capital returns. The 13.2% CET1 ratio was certainly better than we were expecting, which puts you in a good position, and you have been clear about your intention to return more capital to shareholders from here. You paid out around 30% of earnings ex L&C as dividend – how should we think about that going forward? What does a progressive dividend mean?

On share buyback, what sort of level are you willing to pay down to? You target around a 13% CET1 ratio – are you willing to pay down to that? And in terms of timing, you mentioned “as soon as practical, subject to the broader environment” – is this an annual decision, or can you be more nimble around that?

Jes Staley, Group Chief Executive Officer

On the capital return policy, the idea is to have a progressive dividend policy such that we would keep reasonably in line with our earnings outlook. The percentage of earnings you quoted would be consistent with that progressive view.

In terms of share buyback timing, we will hopefully get more clarity around Brexit and the impact it is going to have on the economy in the next few weeks. We have taken an additional £150m charge in Q4, so you can see that we have been prudent – as we should be given we are at the beginning of the year and there is so much uncertainty around the UK economy. If you look at the 140bps of capital generated last year and what we paid out in dividends, the capacity to buy back stock is clearly there – and at this share price level, that is what we want to be doing.

I won't comment on what the long term policy around buybacks is, although I think most of the major banks have excess capital and are using buybacks quite aggressively. Having said that, we also recognize how important dividends are, particularly with UK investors. However, our first and foremost obligation is to keep a secure level of capital. Our end-state goal is around 13% and we want to stay there. We want to make sure we do well in the Bank of England stress test, so we need to keep a strong balance sheet and to be prudent with our capital. However, we also know that after so many years of restructuring we need to return more of capital to our shareholders.

Rohith Chandra-Rajan

And is it an annual decision, or is it something that you might revisit sooner?

Tushar Morzaria, Group Finance Director

It is something that we don't have to do just once a year, but we don't have a set policy on that. For example, you saw that we redeemed some capital instruments in the fourth quarter of last year, so I am

not sure I'd guide you to an annual, or not an annual, decision. We will do it as and when we feel it is prudent to do so.

Jes Staley

In addition, one of the binding constraints of every bank is the annual stress test, so I think it will have to be done within the context of the stress test.

Rohith Chandra-Rajan

Thank you. My second question is on the IB revenues. FICC performance in particular was very strong, relative to a weak quarter for the industry as a whole. You called out a good performance in Macro, largely offsetting the weakness in Credit. How should we think about that going forward? Is the business being repositioned and you are starting to see some of the benefits of the actions that you have been taking coming through, or is it something particular to this quarter?

Jes Staley

We have gained market share five quarters in a row. We invested in our people and technology, and I think we are well over half way in terms of upgrading across the Markets business on our electronic trading platforms. We did marginally increase the balance sheet allocated to the IB during the course of 2018 – but not RWAs.

Since March 2016 we have stated our commitment to being a bulge bracket investment bank, anchored in New York and London. I think what you are seeing is investors voting in terms of where they are directing their flow of business, and that flow of business is coming to us and we are generating the market share gains as evidence of that.

We still have to significantly improve the profitability of our Corporate and Investment Bank. I have talked about the challenges around the lending portfolio in particular, but we like the gains that we have made in the Markets business

Joseph Dickerson, Jefferies

Could you discuss the backdrop in the IB, notably in the US with the government shutdown, what is happening at the industry level and how you are thinking about it and responding to it?

Secondly, I noticed on page 48 of the release that there is about £7.8bn of RWA reduction related to methodology and policy, and it looks like about £6.3bn of that came in Q4. It says this relates to an extended regulatory permission to use model exposure measurement approach. Is this something that's a permanent feature? Or will these RWAs bleed back in the future? I am just trying to think about how we model it, because it looks like it was about 30bps of capital in the quarter.

Tushar Morzaria

In terms of government shutdown, I won't comment on trading or revenue performance, but others have said that the shutdown means it is very hard to get deals that require SEC filings or SEC registration registered in the US. They have also said that although this has an impact on deal activity, pipelines remain reasonably robust and asset markets still feel reasonably good. I have nothing further to add on that.

In terms of your second question on RWAs, yes, that was an approval to extend the use of our models to other parts of our portfolio, and it is a permanent approval. It is not something that will bleed back over time.

Raul Sinha, JP Morgan

Just a follow-up question on capital please. If we go back to slide 10 and look at the underlying capital generation of the business, I think you are quite different from most universal banks in Europe, in that you generate a lot of capital on an underlying basis. I was wondering if you could share a bit on how you think 2019 might look like in terms of net capital generation. The reason I ask that is because consensus seems to have a buyback expectation of only 15bps of CET1. Based on your current position it looks like you could do a multiple of that. Are there any big one-off negatives that might cause the capital generation to slow down in 2019?

My second question is on the RoTE uplift from 2018 into 2019. Obviously 2018 was not a normal year, but hopefully 2019 will look a little bit more predictable, and hopefully you have that RCI step up in the middle of the year built into the RoTE outlook. I was wondering if you could comment a little on what are the other areas you think you could get a step up from in terms of returns, and in particular on costs, what might cause you to hit the lower end of your targeted costs?

Tushar Morzaria

Thanks for your comments characterising us as generating good levels of organic capital, we would of course agree with you there. In terms of capital generation for this year, the one thing that could be a drain is pensions contributions. We have published that – it will be the same level this year as it was for last year. In addition, we are obviously transitioning into IFRS 9, so there will be a small pickup of that transitional adjustment. There isn't anything else significant that I would individually call out as a technical matter. Of course it is somewhat predicated on what the earnings outlook is, and we are very focused on generating a 9% return and we will flex what we can do to do that.

I think the other thing is that we want to run the bank appropriately and prudently, so we need to take everything into account. With all the geopolitical uncertainties, now is probably not the time to be spending that level of capital, but it is a priority for the board and this management team to return cash to the shareholders. I think we are getting closer to the point in time when we can talk openly about that.

Jes Staley

This time last year we were talking how do we get from a RoTE of 5.6% to 9%. It is a lot nicer talking about how we get from 8.5% to 9% this year. Firstly, on the revenue side, whether it's US Cards, Merchant Acquiring, or what is coming through the Barclays Mobile Banking app, there is growth there. We increased our mortgage portfolio in the UK during the course of the year and I think we will continue to see that happening in 2019.

There will be improvements in the revenue line in the Corporate Bank as we improve our offering around the transactional side of that business to leverage the loan extensions that we have there. As the markets normalise, our market share gains in the IB should translate into better revenue numbers as well.

On the cost side, we have done a huge amount of work in BX over the last couple of years. A lot of it was spending money to reorganise the bank - setting up the ring-fenced bank, setting up the IHC, getting ready for Brexit, which had cost us a fair amount of money but we are now ready for a hard Brexit. We closed 2018 at £13.9bn of expense and we guided the market to £13.6bn to £13.9bn. We have flexibility because all the money we spent on restructuring the bank is now being spent to invest in technology to grow our non capital intensive revenues. We now have a volume control on costs. Having said that, if there is a challenge to profitability we will move that volume control with prudence in order to try to hit our profitability target. Tushar and I take the 9% RoTE target very seriously.

Raul Sinha

I would just like to follow up on a technical point. In the revenue line obviously there is about £300m of negatives in the Head Office in 2018, and it seems to me that the Treasury drags are now sitting in the divisions. I was wondering if you could give us some sort of commentary on the revenue drag from the Head Office for 2019.

Tushar Morzaria

The things I'd guide you towards are the legacy funding costs, which will continue to come through. They will obviously drop out as and when we call those legacy funding instruments. The other one I would call out is the negative hedge amortisation. There are actually two effects there. There is the rolling down of the negative hedge amortisation from divestitures out of the old Non-Core, and there is also the quarterly hedge ineffectiveness that you are familiar with.

I would say the hedge amortisation is a negative, and we gave guidance last year. There is no real change to that. On the hedge ineffectiveness, it will trend around zero but it will be positive or negative in any one quarter.

There are always occasionally things that you can't anticipate, like the GMP charge, but I wouldn't call anything else out.

Jonathan Pierce, Numis

Just a quick one relating to the last answer. These various negative net treasury numbers dotted around the divisions. How should we think about those moving forward? Should we reset those to zero or would they be a negative?

Tushar Morzaria

I don't think of these as permanent drags. They are really just a combination of funds transfer pricing, timing differences, as well as the net result from our treasury pool and the timing of how we allocate that back to our businesses. On a trend basis I would model them as zero.

Jonathan Pierce

On impairment - obviously IFRS 9 is confusing all of this. If I ignore Brexit overlay for a moment, the Group charge last year was about £1.3bn. It was appreciably below what I think I can see in the stage three book, which was over £2bn with the delta largely relating to the releases on stage one and two, which you called out last year. Would you steer us towards that stage three as the right kind of starting point for thinking about impairments this year? Maybe you could frame this in the context of consensus impairment charges for 2019, which are currently at £2.2bn. Related to that, if there were to be noise that hurts that impairment charge this year on stage one and two, would you strip that out when thinking about your RoTE target?

The second question is more broadly on the credit environment. Could you give us an update on how you are thinking with regards to UK versus US, particularly in relation to the credit card portfolio's growth ambition? Has that changed and are you seeing any deterioration? We have only got January data out of Gracechurch so far, and albeit very early stage, it looks like delinquency formation has picked up quite markedly in the month in the UK.

Tushar Morzaria

I won't make a direct comment on consensus. It is a year we have quite a bit of political uncertainty, and given we are only six weeks in, it's difficult to give a guide on consensus. One number that I focus quite a lot on is gross write-offs, or gross charge-offs, which is a reasonable proxy for the cash losses that are running through the book. It's not exactly that, but it's a reasonable proxy. We've called that out at £1.9bn, so when you think about the £1.9bn charge-offs in 2018 and our accounting charge of £1.5bn, some of the differences come from the recoveries in our corporate loan book – which I wouldn't expect to be recurring.

You will also be aware that we've had some improvements to macroeconomic forecasts under IFRS 9 netted against the £150m additional overlay we took. None of us have a call on where the economy will go this year, but I think that gross charge-off, given where we've seen credit conditions, is a reasonable jumping off point.

Jes Staley

On the UK – ever since the referendum vote, we have held our UK receivables portfolio flat. That has been a conscious decision by management to tighten our underwriting standards, even though consumer spending has actually increased. I think we have been properly prudent relative to consumer spending given the uncertainty of Brexit.

In practice we are not seeing any deterioration in the unsecured consumer book at all. I think we are being prudent given the Brexit uncertainty, but as of now deposit levels, both in the consumer and the small business area, are higher now than one might expect. I think people probably have more cash, or they are holding on to it. Credit has not shown the weakness that one might expect in both small business and consumer, given the uncertainty, but we want to be prudent.

Regarding US Cards – there's record [low] unemployment in the US. During the course of 2017 and 2018 we raised the average FICO score of our US portfolio, which is in part because of the success we've had around the airline programmes, notably JetBlue and American Airlines, where there is some of the highest quality credit in the US consumer space. Having said that, we do have a new management team that we've brought in over the course of last year or so in the US Card business, for example Shane Holdaway has joined us from Capital One. We always want to get better at upgrading the analytics around the consumer credit market in the US, because I don't think a good risk-adjusted return is necessarily just a function of having high FICO scores. As we expand our co-bank card and our branded card, we believe we can drop our average FICO scores and still keep a very strong risk-return profile.

Robin Down, HSBC

Coming back to buybacks, you've said that one of the issues that's preventing you from doing it is the macro picture. Can we narrow that down? Are you specifically talking about Brexit here – that we need to get some form of Brexit resolution before you can start the buyback?

My second question is on the RWA moves. We have seen a reduction in Q4 from a model change – is there anything you would call out in terms of RWA step up or down for 2019? I can't see any reference for instance to IFRS 16, or whether or not you see any other model extensions that you plan to take through.

Tushar Morzaria

I will take the second question now and I will ask Jes to talk about the trigger points for a buyback.

IFRS 16 is immaterial for us, so I wouldn't be concerned about that. There aren't any technical factors that will change RWAs going into 2019. RWA movements will be a function of business growth. We really want to grow the consumer side of the business. Those aren't particularly capital hungry – the mortgage book is reasonably RWA light. Even our cards business in the US, which we have been growing, while that has a slightly higher RWA density, these businesses grow at a slower pace.

I don't expect the CIB to be changing much. RWAs year on year were down slightly and we don't expect that to be consuming much more. The other thing I'd point out is that if we see any downturns in the economy – which we are certainly not seeing yet, RWAs can be pro-cyclical, which is something to be mindful of.

Jes Staley

On the buyback side, since March 2016, we have been trying to be consistent in delivering on the commitments that we put in front of our shareholders and our investors. Recognise that in 2017 we distributed £0.5bn of capital to our shareholders. Early on in 2018 we announced that we would more than double our dividend, and in the fourth quarter of 2018 we announced we would be using £700m of capital to retire the dollar preference shares early, so that allowed us to triple the capital return from 2017 to 2018.

We are in the early part of 2019. There is a lot of uncertainty around Brexit and hopefully we are coming close to the end of that uncertainty. We recognise the importance of returning capital to shareholders, but we want to do it in a measured way. I think you also have to consider the macro issues going on in Europe, but let's see what the appropriate time is during the course of 2019 to return capital to shareholders, or to make an announcement of returning more capital to shareholders.

Chris Cant, Autonomous

I just wanted to come back to the other capital ratio we haven't discussed yet. Looking at your UK spot leverage exposure, it was down 6%, or £64bn, in the fourth quarter, but your average UK leverage exposure was down by less than 1%. That seems to imply a lot of exposure was taken down close to the balance sheet date, and I note that your spot exposure only fell 1% in 4Q17 on 3Q17, so it's quite a big move. It's bigger than the £50bn of leverage balance sheet deployment you talked about in the CIB as part of your strategy update last year.

Firstly, what drove the drop around the balance sheet date? Will that reverse into 1Q19? Is this in any way a reversal of thrust on the CIB leverage deployment? Secondly, the stress test operates on the spot ratio, so the drop in the exposure has obviously meaningfully helped your starting ratio for next year's stress test. Are you at all concerned that the regulator will look at the 60bps difference between your spot and average leverage ratios and seek to adjust for that in some way in the stress test?

Tushar Morzaria

Most people have called out that the back end of December was a particularly quiet and tricky month in terms of client flows. I'd say the drop off in leverage was somewhat driven by that bigger-than-usual seasonal decline. Because of the Christmas and New Year holiday period, activity levels tend to be a bit low as the quarter closes in the fourth quarter, and last quarter was probably even slower than usual – and you have heard many people call out how difficult a month December was for client business.

In terms of deployment of leverage to the investment bank, we try and run the place as efficiently as we can, so we want to design the bank such that we live to a RWA constraint and use leverage as a backstop measure. We will therefore try and soak up leverage where we can, because if we are running to that front

stop constraint, that's not capital we can get back to shareholders' hands in any way, so we will try and put it to productive use.

On your second point, average leverage is actually what we manage to. When we are going through our numbers on a daily and weekly basis, the number we manage to is our average leverage exposure. First and foremost, we are focused on ensuring that we are materially above the minimum average requirement every day. The spot number becomes less and less a management ratio to think towards, although it is helpful for the Bank of England stress test.

Chris Cant

On the seasonality point I appreciate December might have been slow but that was why I referenced what happened in 4Q17. It was a 1% decline in 4Q17. It is six-fold that this year. I appreciate what you said on the average leverage ratio being more in focus, but the spot ratio is what matters for the stress test and it does look like a very large gap. It is something the regulator might look at and want to factor in when thinking about whether you're passing the stress test. You only just passed on leverage last year, starting with a 5.1% spot ratio position – your 4.5% average leverage ratio looks quite low now.

Your CRR leverage ratio – again I appreciate this isn't the binding constraint – but as a point of comparison you're now only 20bps ahead of one of your large European peers on CRR leverage ratio at 4.3%. The leverage ratio does look quite tight to me. Where does the confidence that the regulator won't actually consider this a binding constraint for you at some point in the future come from?

Tushar Morzaria

I don't really have much more to say, apart from that we run the place as efficiently as we can, soaking up leverage where it's sensible to do so and to run the place to a RWA constraint. As you say, for annual stress testing it is the spot leverage ratio that counts, not the average, so that won't affect our stress test results. We feel very comfortable with our position when we look at leverage on any measure.

The other thing I would point out on the stress test is that we had a very significant conduct component last year, which is now settled, so that will help on both RWAs and leverage. We feel very comfortable and will continue to run the place as efficiently as we can.

Ed Firth, KBW

My first question is on funding cost – in particular I noticed that if we look at some of your credit ratings, they seem quite tight, especially on the Holding Company. I wonder to what extent is that a consideration in terms of your buyback plans and your MREL issuance plan, and how that might be impacted if the credit rating agencies were to take a more cautious view on the outlook.

The second question is about your returns target. If I get that right from your slides, you are currently making 8.5% and you are targeting >9% this year, which is pretty close. I hear all the good things that are going on, but you've got 60% of your capital in the business that's making 7%, so if you're only targeting at best somewhere around a 50bps improvement. It doesn't sound like we are looking at a big transformation in profitability across the group this year - or are there some headwinds that I am missing somewhere?

Tushar Morzaria

On funding costs, we have plans to issue about £8bn of MREL this year. Funding costs are a bit higher today, but it will ebb and flow over the course of the year. I'd say if we were to issue at today's spot level compared to several months back where spreads were tighter, the additional funding cost between the

debt that would roll off and the new debt that we'd put on would be in the very low tens of millions of pounds.

Ed Firth

Is that for the whole £8bn?

Tushar Morzaria

Yes, that's right. It's not something that I think is significant here and now, but it's something that's relevant and important, and it is something we do pay very close attention to. Current spread levels feel very reasonable to us at the moment, so nothing that I'm too concerned about.

Ed Firth

In terms of your credit ratings – I suppose that is one of the considerations in terms of your share buyback plans. Is there a level at which you have a problem or not? Or are we a long way away from any issue on that front?

Jes Staley

I don't think the credit rating agencies are concerned about our level of capital, they are as supportive as the BoE has been around our capital position being very robust. Their issue is around profitability and that's what they're focused on. I think going from 5.6% RoTE in 2017 to 8.5% in 2018 will make for an effective dialogue with the rating agencies in the early part of this year.

To your second question about the 9%, as I said earlier it's much more comfortable sitting here with a 50bps gap versus last year with a 300 bps gap. I think we have made a lot of progress on the cost side. We are mindful of the fact that we had a good year in impairments in 2018, although I want to highlight that the vast majority of that improvement in impairment versus 2017 was a function of management actions, and not accounting issues around IFRS 9 as some people have talked about.

In 2017 we had two big impairment issues, one being Carillion, and that didn't repeat in any other names in 2018. In 2017 we also took a pretty significant hit in selling the bottom 10% of our US credit card portfolio, so the non-recurrence of that also helped the impairment number in 2018. In addition, we reduced RWAs in the Corporate Bank by about £10bn from 2017 to 2018, and a lot of that was focusing on credit that we had concerns about.

Hopefully we will be as successful in managing the impairment challenges in 2019. We obviously want to hit 9% [RoTE] or better, and when you start modelling returns higher than 9% maybe we will reconsider the target!

Ed Firth

As we look through Q1, should we be seeing a better revenue picture? Is that really where we are going to be seeing it, and then offset might be on the impairment? Is that how we should look at it?

Tushar Morzaria

We obviously don't have a crystal ball on the economy over the year, but I think we have a lot of self-help measures. We have legacy funding rolling off that you know about. We have some very expensive debt that is available for calling that you also know about. We have a lot of cost flex that we have talked about, and as Jes said in his opening remarks, we are now focused on the medium term prospects of the bank.

We have a lot of choices around investments and the phasing of them. Included in 8.5%, we have GMP which probably won't repeat again.

We don't know what the full year will be with impairment but we have tried to be prudent in our provisioning at year end, so hopefully that provides some support for whatever we face over the course of the year. Of course we are growing parts of our business that you'd expect us to grow, whether it's US Cards or UK mortgages. Jes talked a lot about the Corporate Lending business and trying to get more transactional business from that. We have a lot of levers and we feel pretty confident we will get there.

Andrew Coombs, Citi

On the US credit cards growth, excluding the partner disposals you had in 2Q, the underlying growth was 4%, and yet you refer to AA and JetBlue as being double digit growth. Correct me if I'm wrong, but I thought airlines counted for about half of your partnership card base there? I am slightly surprised it's only 4% underlying growth. What has been the offset? Is that the own brand shrinkage or are there other partnerships where you are seeing a contraction in receivables?

The second question is on the RoTE target of 9%. When you came out with the 9% target in 3Q17, I think the word you used was "underpinned" on a 60% cost income target. Correct me if I'm wrong, but that 60% target is now deemed to be over time as opposed to for 2019, so it seems to suggest that you have a more conservative revenue outlook compared to back then. I am just trying to work out what that offset is – what has come better than your expectations that you haven't had to change the 9% RoTE target? Is it lower loan losses? Is it a lower capital base? Tax? Could you please clarify?

Tushar Morzaria

On credit card receivables, I don't think airlines, at least those two portfolios, are going to get to half our book. You've got to remember we have about \$27bn of receivables, so it is reasonably well diversified. Although airlines themselves make up a good proportion, we've got Hawaiian, Frontier, Alaskan, as well as JetBlue and American. We also have other partnership programmes like Apple and other retailers, so I wouldn't overplay the concentration in American and JetBlue.

Because those portfolios are traditionally very low risk, we are very comfortable to let them have double digit growths, given where we are in the cycle and the uncertainty we have. We are more cautious on the rest of the book. While we are keen on growing the book, and you've seen us grow it virtually every quarter and every year, we are careful and paying attention to credit conditions. Income growth on that business was 6% [Q4 YoY], so I think that's a pretty healthy rate.

In terms of cost: income ratio and RoTE target, we've said it's over time, and I think of cost income ratio very much as an output rather than an input. We have plenty of levers that we just talked about on the earlier question. In terms of what has changed between the third quarter of 2017 and now, obviously the rate environment is significantly different, the economic environment is significantly different, the geopolitical uncertainty is significantly different. Tax rates are obviously different and that has been helpful to us.

There are lots of swings and roundabouts. The way we manage is to have levers that enable us to take those things in the round and make sure we generate the right level of return. We think that over time, as we generate a nine, ten and better percent return, that will result in a cost:income ratio of 60%, and you can see we are getting close to that – but think of that as an output. We are really mostly focused on getting to the right returns level.

Fahed Kunwar, Redburn

Going back to a point you made on the pro-cyclicality and risk weights. We saw a pickup in market risk weighted assets for increases in their stressed VaR assumptions from a lot of your peers, but it looks like you avoid this in the quarter. How should we think about that? How did you avoid it in the quarter? And how should we think about that going forward if we see more of these volatility spikes?

The second question is just a clarification from an earlier question. Should we take the point you made earlier, that there are no advanced model approvals sitting with the regulator now waiting for approval?

Tushar Morzaria

On RWA pro-cyclicality, yes, we didn't see what some of the other banks have seen in terms of a spike up in the fourth quarter. Many of our models are average based, so a short spike right at the back end of the quarter had less of an effect on us. Likewise, if it's a dip at the end of the quarter we wouldn't see that benefit. However, the pro-cyclicality could affect us as well – if things deteriorate further, our models will start reflecting that. RWA models under the Basel III framework globally are designed to do that, so we won't be immune from that, and it's just something that we have to be mindful of.

In terms of model approvals in the pipeline, we do have model approvals in the pipeline. I wouldn't guide to that resulting in a higher or lower RWA. We take these in the round so not every advanced model we get approved actually lowers RWA. Sometimes they do increase RWA and it's just down to us to manage that and stay within our capital tramlines, and in terms of that, I wouldn't expect to see much difference in CIB and we want to grow the rest of the bank over time, which won't be hugely capital consumptive as we grow those balance sheets.

David Wong, Credit Suisse

In terms of the growth expectations in your US Cards book, would you still be looking to grow that book at a double digit rate underlying for 2019 and 2020?

My second question is on the returns within the CIB. I am surprised that you seemed to suggest that the lag is within the corporate business rather than the investment banking business. Are you suggesting that the Investment Banking business actually makes a higher than 7% return in 2018, and that the Corporate Lending business is actually the lower returning part?

Tushar Morzaria

I will take the Cards questions and I'll ask Jes to talk about the CIB. In US Cards, we do have an ambition and we believe we can grow that business in terms of receivables by 10%, but we are very focused on doing that in a safe and appropriate way. It's more of a statement of ambition rather than a slavish target we run to. You've seen we've been a bit below that, and that's ok because we really like the risk-adjusted characteristics of that business. We like the credit profile that we have in that business. To the extent we see opportunities to grow it further, while paying due attention to credit control, we will do that and believe we can do that over time. However, I wouldn't guide to expecting us to do that in the near term.

Jes Staley

On the corporate loan book, any particular revolving line of credit to a corporate generally is a drag on achieving our target cost of capital, so what you need is to augment the lending with transactional business via payments, foreign exchange trades etc. That is what we're focused on and that's what's led to the investment in technology to take that transactional business to Europe, and improve it here in the UK, through the iPortal platform.

So we are making investments to grow our transactional business to get the proper returns on the back of the lending book which, as a gross generalisation, is normally generating returns below cost of capital, and that's industry wide. Regarding the [Investment Banking] business, CIB returns were 7% for the year, the contribution from the [Investment Banking] business is over that 7% level.

Martin Leitgeb, Goldman Sachs

On the liquidity coverage ratio, there was a comparatively sharp increase in the fourth quarter. I was just wondering what's driving that? Is this because you want to be prudent given the macro uncertainty and would like to have a bit more liquidity? Or is it to do with the impact of ring-fencing? Related to that question, how has the split between the ring-fenced bank and the non ring-fenced bank changed your funding structure, and are there further changes to come, or do you think you have pretty much reached end state now?

The second question is on your growth ambition more broadly. What excites you the most in terms of growth going forward? Looking at slide 25 in the deck – is the message here essentially that the focus is on the more capital light part of growth, so digital banking, payments, transaction banking? If so, could you just comment on how your payments and digital banking proposition have evolved over the year?

Tushar Morzaria

I'll cover the liquidity question briefly and I'll ask Jes to talk about the growth objectives that we have for ourselves. I wouldn't read too much into our increase in liquidity coverage ratio. We want to stay very liquid and very prudent as we go through the geopolitical uncertainties that are with us at the moment. I think you will probably see most banks adopt a similar stance to us. It's not a direct consequence of ring-fencing or anything technical like that. It's very much a discretionary choice, and we think being very liquid is the right thing to do.

Jes Staley

I'm not sure there's another financial institution in the UK that crosses the payment waterfront as broadly as we do, from the seven million customers we have on the Barclays Mobile Banking app to the position we have with both debit cards and credit cards, to being one of the two dominant merchant acquirers in the UK, to being very connected with small business banking and corporate banking and the multi-national market. That gives us a waterfront where we can apply technology to increase our transactional volumes and increase the engagement with our consumers. That is an enormous possibility for the bank, and that is probably one of our greatest ambitions. To your point, it's nice if it's capital light, and I think we'd like to derive more of our revenues in the future from activities that require less RWAs than we may have had in the past.

We also recognise, however, that the corporate market in particular is a global market, so we need to extend the transactional businesses and the payment business to Europe, as well as utilise the footprint we have in the US. We think we have a very competitive card offering. We've launched a digital bank in Delaware. We are gathering about \$15bn of deposits now. The opportunities to take from the technological innovation and understanding that we've developed in the UK and extend that into the US to grow the payments business, is also something that we are keenly focused on, so you have picked up on a very good point there.

Guy Stebbings, Exane BNP

Just a couple of questions on capital please. Firstly coming back to RWAs – good performance in Q4 and it sounds like you are not calling out any big changes in 2019, but as we look a bit beyond that, clearly

regulatory changes are on the horizon. Would you be able to provide any sort of update on your views around Basel finalisation as some of your peers have now? Any reason why we should think of Barclays as being an outlier on this? Does clarity here inform your view around buyback size or timing at all, or does the phasing mean that it's a less of a consideration for you?

Secondly a clarification on Pillar 2A. I think it was 2.4% in Q3 and then went up alongside the stress test to 2.6% and then 2.7% today. Is this simply a reflection of the RWA movements, or is there something else going on that you can comment on?

Tushar Morzaria

We are not really comfortable yet to be in a position to guide to the effects of Basel IV. The key reason for that is there's quite a bit of national discretion that will get applied, so we'd like to understand that more. It probably sounds like it will be applied in 2022, possibly with a transitional phase, so we are three years away and we really want to understand the national discretions, and the effect it may have on us as we adapt our balance sheet. As you're aware, banks have got pretty good at adapting their balance sheets to get to the right impact if they have two or three years notice. There will be a time and a place to talk about it, but it feels a bit early at the moment.

In terms of Pillar 2A, that's actually in some ways partly related to the first question. The Bank of England has said in the past that they were very comfortable with the level of capital in the UK system, but not necessarily by institution, so there may be some flex in Pillar 2A as those other changes get rolled in.

In terms of the uptick from Q3, there isn't much to call out. There's a fixed component so when it translates to a slightly lower group RWA it's just a higher percentage – there's nothing other than that.

Guy Stebbings

Given your comments on Basel finalisation and the timing, can we take that to mean that it's really not a consideration in terms of buybacks in the next year or two, given the phasing effect as you mentioned?

Tushar Morzaria

Certainly not in 2019, and we will keep you updated.

John Cronin, Goodbody

Just a follow-on question on the growth point. I hear you in terms of the initiatives to strengthen non-interest income over time, but by holding on to a 13% CET1 capital ratio target, given all your peers are at 14%, and there is potential for a not insignificant degree of volatility in terms of your annual internal capital generation capability, would there be a risk that capital would be steered away from these substantive long-term investment towards things like one-offs and buybacks?

And then a very quick second question – are there any trends you can call out on UK deposit pricing and competition in the market?

Jes Staley

On the first question, I think we were the second best bank in the UK in terms of the stress test this year. Moreover, you need PRA approval to repurchase the USD preference shares that we executed in the fourth quarter, with our current capital level. I don't think there's anyone out there saying that banks are under-capitalised, at least in the UK today.

I think one of the reasons why we can run at 13% very comfortably is because we have a very diversified business model. In a stress scenario where the sterling falls by 25%, we are helped by the fact that over 40% of our revenues are in USD, so that diversified model gives us an advantage in what is the binding constraint around capital, which is ultimately the stress test. That is why we have said for quite some time we think the end-state target level is 13% and we think the Bank of England has been very supportive of that.

If you look at the quality of our balance sheet, the amount of liquidity that this bank carries, the level of capital today versus the level of capital two years ago, four years ago, six years ago, it's difficult to come up with an argument saying we are under-capitalised. I think we have the right capital level and I think that gives us the opportunity, like we did last year, to triple how much capital we return versus the previous year.

Having said that, if we can increase our revenue in a capital-light way, that is a healthy thing for the bank. If you look at our bank in the UK, 85% of our revenues are NIM. We obviously would like to get that number to a lower level by taking technology and investing in the payments business and increasing our capital-light revenue base for the bank overall.

Tushar Morzaria

On deposit trends in the UK I'd say deposits are increasing across everything, whether it's UK Corporates, SMEs, or consumers. We are not seeing real marginal pricing. We see a lot of interesting headline offers and new entrants, but as far as we're concerned it doesn't seem to be making any difference in terms of our ability to attract what I'd call franchise deposits. These are high quality deposits coming into our current accounts, operating accounts for our small businesses etc. If anything, deposit growth is probably outstripping asset growth, and that may be a function of people keeping cash rich as we go through the current environment, but at the moment, it's a pretty healthy environment for deposits.

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