

Barclays PLC Q4 2019 Results

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Sellside Breakfast Q&A transcript (amended in places to improve accuracy and readability)**Tushar Morzaria, Group Finance Director**

I'll just trot through a couple of reminders of the things I said on the call that are important. As much to do with forward guidance as anything else. Some of it will be obvious, but just some of the smaller points I want to make sure had landed.

On the more obvious ones, we continue to target a 10% or better return for the Group, but have acknowledged that it may be difficult to do in 2020. Either way, we should do better than we did last year. 10% for this year does appear challenging, which is a comment as much on the rate environment as anything else. Obviously tax rates in the UK are going to go up relative to previous expectations as well, but it's various things, ins and outs.

The other thing that I'd just remind you is that we do expect positive operating leverage in 2020 for the Group. In 2019 we did have positive operating leverage for every [operating] division, as well as the Group. We are targeting Group positive operating leverage in 2020.

Our CET1 ratio of around 13.5% - we still believe that is the right target level for us, notwithstanding the changes to the countercyclical buffer requirements that may come in towards the back end of the year, as was indicated by the FPC. On the shape of our CET1 ratio, we will go backwards in Q1, that's very typical for us, back closer towards 13.5% from the 13.8% level that we were at the end of the year. And from that point on, as we've done in previous year, we'd expect a steady build. We obviously had quite a significant headwind in terms of ratio accretion last year, 50-plus basis points coming from conduct and litigation. Famous last words, I guess, but we're hoping that, with the tail end of some of the larger items, most of that ratio accretion over the year will be something that we have more discretion around.

In BUK I did talk about income headwinds going into next year. Again, somewhat driven by the lower rate environment, as well as lower interest-earning unsecured balances for us. And you've heard others talk about the High Cost of Credit Review. Obviously that has an impact to us as well. I did also comment, though, that we would expect a better impairment outcome: we talked about the £200 million a quarter I've guided to previously being at the top-end of what we'd expect. In fact, we'd probably expect it to be a bit lower than that.

And the shape of costs in the UK, we would expect that to be frontloaded. We have a bunch of restructuring type items. We don't call out restructuring separately anymore, but just the way in which we plan our work for the year, some of that will be incurred very much in the first and second quarters. So as you do your modelling it's just something for you guys to be aware of.

And we talked also about our wealth business – our UK wealth business – targeting the mass affluent market has been a strategic priority for us as we go into the medium term. So one for future years, I guess, but it's something we're very excited about.

In Consumer, Cards and Payments I talked about much more of a focus on our co-brand business. You will be aware that Ashok Vaswani – you'll all remember him well from running BUK for a number of years – has taken a broader role looking at our consumer businesses. He's very focused on driving the co-brand business relative to our own-brand business. I think you'd expect to see mid to high single digit [volume] growth in the co-brand business. We now see the signing up of Emirates Airlines into our airlines portfolio, which we're very pleased with. On the own-brand products in the US we will expect balances to decline, and as a consequence of the own-brand products tending to be higher risk in nature relative to our co-brand products, you would expect a better impairment outcome, all other things being equal.

We're also very excited about the payments business. We talked a bit about the expansion into Europe and the success that we're seeing there. I think the two prongs there will be in our merchant acquiring business – of course we think of payments across the whole spectrum of payment activities, but just on the acquiring side, I think it will be further progress in Europe and further progress in adding market share with small business clients. We're very well represented in large corporates in the UK – that's a UK comment, that last one. We want to be increasing our share of [UK] small business customers, which we feel very well-positioned to do, again over the medium term.

On CIB, we would expect both returns and profits to increase year on year. We're hopefully going to see that. The track record that we've had for about three years now shows that even in a declining industry volume or revenue backdrop, we're able to drive our profits and returns in the right direction. We would expect to see positive jaws in that division again in 2020.

And the third of our medium term focuses, we're very excited about the transaction banking opportunity for us in Europe, and we mentioned some of the stuff from the progress that we've made over the course of 2019. And we look to build on that, and it's part of the prong of continuing to increase the productivity of our corporate loan book as well, in terms of return on risk-weighted assets that we have in that corporate lending book. So I will pause there and just open it up to questions.

Jenny Cook, Exane

Two questions, please. One, on your RoTE target, and two, on the scrip dividend. In terms of your RoTE target can I ask a little bit more around what exactly do you mean by a meaningful improvement? Would you expect that to be on a meaningfully higher TNAV base? And would you expect to improve on your cost: income ratio for next year?

And then in terms of the scrip, I just want to ask around that, because the share count dilution coming through from the scrip has stepped up quite a bit in 2019. We're looking at about 1% share count dilution, and if I look at the buyback a couple of years out, people are expecting around 2% reduction in the share count in that. So you're actually offsetting quite a bit of it in terms of your EPS. Would you expect it to maintain at this level going forward? Thanks.

Tushar Morzaria, Group Finance Director

Yes. So let me do them in that order. I think the answer to the first one, TNAV and cost: income ratio, yes to both. It's quite a frustrating experience for us, but I guess it's true for all the UK banks – the PPI charge that came through in the third quarter wasn't something any of us anticipated, the scale of that. So £1.4bn

provision for us. That gets you to over 5 or so pence, depending on the share count you use. But that's meaningful for us. And on top of that we paid a nine pence dividend out.

So I think in a year when you look through those kinds of distributions you'd expect to see TNAV increase. Reserve movements I tend to look through because they're really a function of the prevailing currency and FX rates, and we look to manage the sensitivities in our capital ratio rather than the tangible book values. So we tend to look through that. But we benefited from that, I think, in three quarters, and then went a big step backwards in reserve movements in Q4, and it'll be what it'll be in Q1; probably some of that's reversed, but may change again.

Cost: income ratio, yes, 60% or a bit better, is definitely something we'll continue to drive forward each year. I think for three years running now we've had our cost: income ratio reducing. We're definitely focusing on making that a fourth year of improvement as well.

Share count, it's a very good question. Behind the scenes, I've been asking myself the question, should we do scrip? Should we even offer a scrip? It's probably a live discussion. We haven't made any decisions, so more to come on that. We haven't made any decisions to cancel the scrip or to no longer offer the scrip, but we would like to start reducing our share count. Scrip is obviously headwind to that, depending on investors' take-up. It's something we'll keep under review.

I'm sure we'll get quite a few questions on capital with countercyclical buffers coming in, and we don't even know how IFRS 9 will be treated in the 2020 stress test, so there's a little bit of uncertainty that we're all going to have to work through. But I think now we're through the bulk of – famous last words again – hopefully our conduct and litigation, we'll have more discretion on our use of capital. Share count becomes an interesting thing for us to start looking at more intensely, if you like.

Martin Leitgeb, Goldman Sachs

Could I just ask about your strategy in terms of credit cards, both in the US and in the UK? And from your remarks it seems like in the US you're guiding for a somewhat slower growth compared to where we have been in the last couple of years. And equally from your remarks on Barclays UK, you seem to imply that the focus is on secured growth rather than unsecured growth. And I was just wondering, what do you think needs to happen to change your view there? Is this driven by late cycle consideration both in the UK and the US, or is this driven by competitive pressures maybe on some of the products? What would need to change to make you grow more in credit cards? Thank you.

Tushar Morzaria, Group Finance Director

Yes. So let me do the US and I'll come back to the UK. For US we actually feel quite constructive on the US consumer, but with the card business, as you all know, you're trying to project out how you feel about unsecured credit 18 months out. Every time you originate a card it tends to season somewhere between one or two years, so 18 months is a reasonable proxy. And the further the expansion in the US goes, probably the closer to the end it is, but none of us know when that end is. There is a presidential cycle that's going to get refreshed one way or the other in the back end of the year, so we are somewhat cautious, but by and large we do feel quite constructive in the US. So on our co-brand business we would expect to see mid to high single digit growth.

Now we have talked about double digit growth in the past, we haven't really been able to achieve that, driven somewhat by our own credit appetite. You can obviously lend as much as you want, but it's more about our own credit appetite. And I think we have a greater focus into our co-brand business, and a

receding focus into our own-brand business. One of the things that's interesting with Ashok looking at the business coming in from the outside is that it is blindingly obvious to him that our competitive advantage in the co-branded business relative to others is that we're not a competitor with our own cards. We don't have a Chase Sapphire card, or something like that.

So if you're dealing with a retailer, our intense focus is just on making that partnership work, rather than trying to sell the same customer our own-brand card. That USP has worked well with us, and that's why we've actually got a disproportionate share of the co-brand business relative to our size. You guys could probably get this publicly – in the co-brand partnership space, we're somewhere between 10% and 15% market share, whereas on the own-brand space we're virtually nowhere. That averages out too, because obviously the own-brand business is such a large business in the US, it averages down to quite a low, overall percentage. But on the co-brand business we have relevance. So I think you've seen more of that. Now the other thing, the airlines products particularly tend to be lower margin, with higher credit valued customers, so you will see impairments track that as that book continues to expand relative to other parts of our portfolio.

On the UK, it's a slightly a more complicated picture because we have been less constructive on the UK economy. We've talked about this for a while. We've probably been too early in that call, and the UK economy has definitely done better than we would have expected. On the positive side we've got, if you like, political stability, which we didn't have, but on the negative we've still got a whole bunch of trade negotiations and various other things to go through, so it's a more fine-tuned case. The other backdrop to that is the High Cost of Credit Review, which is well known about out there. I think we've done a good job of getting ahead of that, and taking pre-emptive actions that I think the regulator would have wanted to see banks do. I'd like to think we're a little ahead compared to some of the others.

I doubt if you'll see much on unsecured growth in 2020 in the UK for us, but I think beyond this then it becomes a broader call on credit conditions rather than anything structural. So it's probably a bit too speculative for now to talk about unsecured growth in 2021. I think you have to get closer to how you feel about where we are in the cycle and credit conditions in the UK. But I think that most of the structural changes are broadly through from us, so a freer decision.

Raul Sinha, JP Morgan

A few questions, if I may. Firstly, just following up on what you just said, do you think you can keep the UK top line stable in 2020, given the headwinds that you're flagging, or do you think there's a meaningful step back in 2020, and then you go forward?

And then a few follow-ups. The cards cost line in the US obviously went down as you refocused the business into your co-branded cards. Is that cost adjustment largely done now, or is there more to come in 2020?

And then I was wondering if you could update us with any guidance on UK bank levy and taxes. Obviously things might change but any thoughts?

Tushar Morzaria, Group Finance Director

Yes, the UK top line, let me give you the dynamics. I won't give you a straight answer to that, but I'll certainly give you the plusses and minuses, and you can take your own judgement as to how dominant those forces are. So obviously the rate headwinds you're fully aware of, and that's probably unlikely to

change. No matter how much rates bounce back up, it takes a while for hedges or anything to grind into higher rates. So I think that will be a headwind.

Having said that, I do expect our mortgage business to continue to grow, and we grew [relative to] market share in 2019. That's a positive in terms of scale of that book into 2020, and we expect it to grow [further] in 2020. At the moment we're growing above our current market share, very slightly above, which is the right sweet spot for us. My deposit book also continues to grow, which is again accretive.

On margins in mortgages, we've seen a stabilisation in UK margins. I think what's as important as that is something we call the churn margin. So this is where a customer that's on an existing, if you like, back book product, typically a fixed rate product – when that product matures and they step into a new front book product, are we getting a lower margin as a consequence of that switch? And actually, that churn margin is slightly positive for us now. It hasn't been like that for a long time. The constant grinding down of UK margins over the last two or three years has meant that you were cannibalising your back book. At least for us that is more stable now, in fact slightly positive. It may not remain like that, but that's what it feels like at the moment.

So I think there is some sort of benefit coming to us from deposits and mortgages. I think in unsecured credit, we're not going to see net balance grow much, so that's something you should think about in your models. I would also encourage everyone to look at the top line and impairment together. They are very related. We have grown our mortgage business relative to our cards business, and particularly on the back of some of the actions we've taken on the more risky part of our UK cards business, you would expect to see impairments come down. Whatever you do with the top line, just think about how the impairments line will look relative to that.

Why don't I cover the other UK question, and then I'll come back to US cards? UK bank levy, we have some prior year benefits that we were able to book in 2019. I wouldn't expect them to be reoccurring. I would expect higher bank levy. Now on the flip side we did take that opportunity to continue to manage the company for the medium term, so we did put through some restructuring charges that we may not have otherwise done in the fourth quarter, to stay in line with our cost guidance and get to the right level of profitability. So that's just flexing capacity where we see opportunities to do things. We'll use that capacity as best as we can, and that'll be a good thing for the bank in the medium term. On a standalone basis the bank levy ought to be higher, but we look at cost in the aggregate. Bank levy is not just managed as an isolated cost, we look at it with everything else.

On UK taxes, I guess we need to know when the budget is now, with the new Chancellor. We don't know if it's going to be on March 11th. If it is, then we do expect corporation taxes not to step down as a percent, and that'll be a headwind on the corporation tax line. So it really depends how this is enacted. There is a technical effect the other way which is on deferred tax assets. That starts getting super complicated, but it really depends how the Finance Act words things as to what you do with deferred tax assets, so probably more to come on that, but more of a quirky thing.

US cards is a growing business. We were very pleased with positive jaws last year. I think with a growing business these things have a J-curve seasoning effect, so I think it's always hard to say it will definitely have positive jaws. But we do expect to see PBT increase year-on-year, and we do expect very good cost control in that. So I'm not going to say here and now it's positive jaws or not, but definitely cost is an important thing to manage. Now, on the positive side, when you're not running your own branded business (and we still have receivables) that marketing and servicing spend does continue to drop off. So that does give us some cushioning effect to costs that we will incur, for example, on the Emirates Airline

portfolio as we build up that book. So there's a tailwind that we'd recycle into growth, into the co-brand book, particularly in the new portfolios.

Claire Kane, Credit Suisse

Firstly a follow-up on the ROTE improvement. So you've decided not to commit to positive jaws on a divisional basis. I was thinking that was more UK-related, but potentially CCP-related as well. So realistically, how much confidence do you have that the impairment line can come in low enough to deliver on a meaningful improvement? Is that really where you see more of the delta, or is it in the CIB operational leverage?

Tushar Morzaria, Group Finance Director

We don't have a crystal ball on CIB and things like that. All I'd say is that we'd expect income and cost to be highly correlated in the CIB. There's obviously a variable component to that, and we're very focused on ensuring year-on-year profits growth. And as importantly, returns improvement. So we'll manage that as we have done over the last two or three years. Even [with] a declining wallet, we will do everything we can to ensure our income holds up as best as we can, and if not we will manage our cost base accordingly, and end of year capital base accordingly as necessary. But we don't expect to see reducing capital in that business.

The impairment is probably more relevant to BUK and CCP. It's just a small, structural sort of credit proposition to those businesses. A lower unsecured own-brand exposure in the US, and a lower unsecured Barclaycard exposure in the UK.

On the cost side in BUK, I haven't given explicit guidance on that, it will be frontloaded though – definitely don't expect positive jaws in the first half. Very similar to what we had in 2019. In 2019 we did end up with positive jaws, but negative jaws in the first half. I think it's probably a similar outturn in 2020, at least for the first half. For CCP, that's a growing business, so I think growing with positive jaws really depends on the seasoning effect of some of those growth aspirations, but certainly we'd expect profits to improve.

Claire Kane, Credit Suisse

Okay, so just to check my understanding. So CIB certainly positive jaws is the expectation, hopefully in the other businesses as well, but you think risk adjusted PBT should be positive in all the divisions?

Tushar Morzaria, Group Finance Director

I don't want to give out too much guidance that I haven't already given. Definitely for CIB, we expect positive jaws. We would definitely expect PBT to improve in CCP, it's a growing business. I haven't said that for BUK. We'll do everything we can, given the headwinds that we have in the BUK business, and continue to get to the right outcome.

Claire Kane, Credit Suisse

And just finally on BUK, the income headwinds, obviously one of your peers did give an absolute figure for largely overdraft impact coming in from April. Do you think that's as much of a headwind for yourselves, or do you think it's the credit card related impacts that have already come through?

Tushar Morzaria, Group Finance Director

We'll see what other banks say. We probably have more of an impact from credit cards and less of an impact from overdrafts. And I haven't thrown out a number so I don't want to throw out a number on this call. But in the guidance I gave about headwinds into 2020 income, both of those things were captured in there along with the overall rate environment.

I think on the credit card side, the reason why it's a larger impact, but perhaps more muted than might otherwise be thought, is that we have been taking action pre-emptively. So some of them have already been digested into the system. You'll see a full year effect, but some of that has been coming through already.

Ben Toms, RBC

The share price this quarter is going to be driven a little bit, potentially, by headlines around investigations into Mr Staley. Just a few questions on that. I'm surprised there were not that many questions on the quarterly call. But when did Mr Staley first tell the board about his relationship? What was the driver of that? Was it at his initiation or was it the board asking? What was the catalyst for the regulator first investigating, and have you got any sense of when the investigation will complete?

Tushar Morzaria, Group Finance Director

I'm going to give you a very bland answer. And the reason for that is I'm not on the inside. So I've been recused from the board meetings where this has been discussed. Obviously as a result of being recused from that, I don't have the details. I've not been interviewed, and I haven't been investigated myself.

All I would say is that I would encourage you to just refer to our RNS and any other public statements we've made. All I would say is that when I look at Jes' work hours and intensity and focus in driving the business, nothing's changed as far as I'm concerned. I think if you weren't aware that the RNS is out, and you were a person inside our company, you would have had no idea. There's no distraction, there's no let up on anything that Jes is doing in terms of driving the business forward. And that's really the only comment I can give you. I don't know anything about the terms of the investigation and where it'll go and where it'll end up.

Ben Toms

So why were you recused from it?

Tushar Morzaria, Group Finance Director

Just as an executive director – it's a standard practice. Look, I've been here long enough. When Antony Jenkins was fired, I was recused. When John McFarlane was appointed interim CEO, I was recused. Executive directors just aren't part of these things.

Chris Cant, Autonomous

I just want to come back to the ROTE guidance and your conviction that you're going to have meaningful improvement this year. You talked a little bit in response to a previous question about TNAV growing. So is that because you're expecting the deduction schedule and your capital working to inflate versus year end? Is that part of what we're seeing there? Because back in 2017 I remember you talking about no meaningful net change in what you were expecting going forwards. I'm just wondering if you're guiding us to expect something there this year.

And then, if revenues at a group level end up flat in 2020, are you going to bring down costs from the £13.6bn level in absolute terms, please?

Tushar Morzaria, Group Finance Director

Yes. I think on TNAV, it's a good question, and as you know there are a few components on the book equity that we can't really control, like cash flow hedge reserve, the currency translation reserve – to some extent even things like the pension surplus deficit, although we obviously do try and manage that as a CET1 matter. But some of the cashflow hedge reserves and currency translation reserves will bounce around. Absent that, what we can control is, on a like for like basis, how much profits we generate. It goes into book equity and how much we distribute from that. That I would expect to be positive. But the reason why it's always a little bit tricky to forecast is when the pound strengthens up to £1.40, that'll be a headwind to TNAV, and if your 10-year gilts go back up to 100 basis points, that'll be a headwind to TNAV, and there's just nothing we can do about that. In fact, if the rates go up that much in a good economy, that'll probably be a good thing, even though it's a poor outcome for TNAV. But absent that, certainly things like conduct and litigation, our own profit generation, all of that stuff we would expect to be accretive.

In terms of Group level costs, I think the straight answer is, yes. We will see what we can achieve. Operating jaws is important to us, improvement in returns and profit is important to us. The only qualifier I'd put on that, Chris, is that it's just managing for the medium term. We've always been conscious that, in a company with the scale of ours, you can get some very good short term outcomes, and some very poor long term outcomes. So I just think it's about balancing that out.

I've always felt that if I knew that at the very earliest part of the year, it's easier to manage something that is good for the medium term. If there's a big problem in the second half of the year, or late into the third quarter, that becomes quite difficult for us. The levers we have to pull on our costs become very limited, so then you'd be taking actions that are probably destructive rather than positive.

Chris Cant, Autonomous

Could I ask one quick follow-up on the TNAV bridge point and going back to an earlier response on tax? It seems you were hinting potentially at a re-recognition of DTAs, or a changing of view on the value of DTAs following the Finance Bill, and the change in the future UK tax rates. Obviously you're expecting it to be 19%. Presumably you haven't booked that yet?

Tushar Morzaria, Group Finance Director

No.

Chris Cant, Autonomous

What kind of quantum of gain are we talking about? Because presumably that's part of your ROTE this year, the re-recognition of DTAs.

Tushar Morzaria, Group Finance Director

We're certainly not planning it to be part of it, and we don't know. It depends on the precise wording of the Act... this all gets quite quirky into the accounting, driven by the precise nature of the language there. So we'll know more when the Act is put in. But it's not something we're forecasting. It'll be what it'll be. Nothing we can do about it.

Jakub Lichwa, RBC

A bit more on the fixed income side. You issued quite a lot of sterling senior last year. I appreciate you may not be able to give the currency breakdown for this year, but what are some of the considerations that you take into account when deciding which currency to come in? And maybe, if you can, would you expect the same amount of sterling senior?

Tushar Morzaria, Group Finance Director

Yes. It's a good question. I think we're as much governed by demand and the size of market. I think we'd probably have a margin of bias to do more [sterling] senior where we can, but the market isn't always of the scale, and certainly pricing, as a consequence of that, isn't always the most attractive. We haven't given out any guidance on currency mix, but we are going to continue to be a significant issuer in euros and dollars relative to sterling, even though we'd like to do more sterling if the market pricing is there.

Joe Hopkins, Morgan Stanley

Could you talk a little bit about the drivers of the reduction of the pension deficit, and how you plan on managing that going forwards? And the second one is on leverage buffers. So in CRR2 there's a proposal to increase the GSIB buffer to 50% of the risk-based one, from 35% at the moment. Do you get the sense that the UK regulator is considering similar treatment for, say, the countercyclical buffer?

Tushar Morzaria, Group Finance Director

On pensions, we're pleased with the outcome there. For those of you who aren't up to speed on it, it's a fairly significant reduction from the last triennial in 2016 to the current triennial in 2019, from just under £8 billion, to just over £2 billion. Three things drove that. Obviously we've made meaningful contributions along the way. We've de-risked the pension fund just as a risk management matter, and mortality predictions were helpful to us. It's about £2.3bn in September. It's getting to a level we'd want to derisk that further and try and cashflow match the scheme as best we can. This is something that we will have a focus on. We've seen some large longevity swaps being done in the market. I think one of the other large UK banks have done a large longevity swap, so it's something we will look into as well to derisk the scheme. Obviously it's helpful not in the short term, but in the medium term, in terms of capital we would otherwise have had to contribute into the scheme.

On leverage, the straight answer is, I don't know. I haven't heard of them talking that way. It's not for me to speculate, so I don't know.

Rohith Chandra-Rajan, BAML

First just on the payments business. One of the things your peer who reported on Friday talked about in terms of the rate headwinds was the interchange fees. To what extent is that offset for you guys in terms of growth in the merchant acquiring business services? And then the aspiration to grow euro deposits by 10%, are they not negative spread deposits? So if we think about that, is that a long-term ambition rather than thinking about profitability in the short-term?

And then the second question is really around cost flex. So you've been very clear that CIB costs will flex in line with revenues. In terms of the BX benefit in 2019, the £550m, is that a reasonable expectation? Is that an ongoing number? And to what degree was there any deferral of investment spend in 2019?

Tushar Morzaria, Group Finance Director

On payments and interchange fee pressures, I definitely would expect to see payments increase as a contribution to our bottom line in 2020, and for a number of years to come. It's one of the areas we feel the most excited about. Plenty of other things have taken up management's focus over the last handful of years, and payments have probably been undermanaged from our perspective. Given the bandwidth we've got now, I think you'll see us more than compensate for that. It is one of the most exciting areas that we have, and it doesn't take up much bank capital. It's very much a good diversification stream of profits for us.

On the euro deposits, we don't think of this as just gathering deposits for the sake of it. I take your point, gathering deposits for the sake of gathering deposits in and of itself wouldn't be of much value to us. It's the fees, the transactional banking opportunities that then translates itself to. So we think of it very much like that. One of the qualitative metrics that we put out was growing our annuity revenues, rather than net interest income on euro deposits. You see that on one of Jes' slides. It gives us the opportunity to become relevant through the fee business as a corporate bank, and that's the most interesting thing for us. That has been small numbers still, but growth is good from a relatively small base, but we feel quite excited about that over a number of years.

Cost flex and BX, we didn't put out a precise number prospectively, but it will be in the hundreds of millions of pounds. That ought to be a way of life for us. Some of that goes in just regular way inflation. We have a lot of our work done in India, for example. That tends to be a relatively low-wage environment at the moment, but certainly high inflation relative to Western economies, so some of that gets caught up by things like that. But net-net we still have a reasonable amount of discretion on where we spend there. In terms of deferrals from last year, most of the stuff we deferred I don't think we'll come back to. It was very much around whether we should go further into US consumer in an accelerated way. I don't think we'll be. As I say, our focus under Ashok will be much more on growing the co-brand cards business, and maybe make smaller forays into US consumer, but it'll be relatively minor in the grand scheme of things.

Adam Terelak, Mediobanca

I wanted to follow up on the transaction bank. It's an area that a number of banks are quite excited about. European peers, and US peers as well now. How do you see the competitive dynamics, and particularly with gathering euro deposits? I think there are banks now starting to reprice their deposits – whether that's an opportunity or you're already pricing it negative, and how that dynamic looks.

And then secondly on regulation. European regulators seem to have softened their stance in recent months. I just want to know if there's any update from the PRA, how they're thinking about Basel IV, or Basel III finalisation, and whether there might be some softening as a second-leg post Brexit.

Tushar Morzaria, Group Finance Director

On euro transaction banking and dynamics, yes, as deposits are being repriced that's an opportunity, for sure. It's always been competitive in transaction banking. I'm not sure it's any less or any more competitive than it was. We've got a lot of domestic local banks that are very strong in their own domestic markets, and some large Europeans have always been meaningfully present in Europe.

I think what's interesting for us is that if you go back far enough we had a large branch footprint in Europe. We had a Spanish bank, a French bank, et cetera, a bank in Italy. And our stance was really to be much

more local, and really the retail offering was to try to bank small businesses and corporates as well. Years back, five or six years ago now, that all changed, and we're just left with essentially a digital footprint when it comes to corporate banking activities. We've got a thing called the iPortal, which is our technology that's relatively easy to plug in to play for European corporates. And what we're finding is that those larger corporates have arranged to do multi-currency corporate banking relationships. And there are fewer and fewer large banks that are able to do that across the currencies on a single platform – at least across the main currencies – euro, dollar, sterling, across a single platform, and that's good for us. So we're quite optimistic about that. We've added about 300 new clients onto the platform in Europe over the course of last year, and we'd like to continue to grow that over time, so think of it as a medium term opportunity. But it's a competitive business, no question, no one's not trying to make money there. But for us it seems to be working out so far.

In terms of European regulators softening, and what that does to the PRA, again the honest answer is I don't know. I think the PRA are super-sophisticated regulators, and they will constantly fine-tune and calibrate what they think is the appropriate capital requirements level – and they have all the prudential [tool] kit to do that. I do think they've been consistent, whether you've listened to Andrew Bailey in the past, Sam Woods, the FPC... At least as a sector matter, they've said a number of times that they felt the system was adequately capitalised. That will mean differences for individual banks, of course, but I think it'll be quite a change if they feel there needs to be a significant hike up [in capital] for the sector. Away from that I think it becomes bank-specific, and everything we know suggests that here and now, 13.5% or thereabouts should be the right ratio for us, but we'll constantly keep it under review as the information changes.

Raul Sinha, JP Morgan

Just to follow up on Head Office. This is a really difficult area to forecast, and there was an £800 million pre-tax loss last year. What do you think we should keep in mind for 2020? Also the RWA trapped in the Head Office – that is still quite material in the context of the Group. I think you sold a book to Intesa in Q4. Can you give us an update on how much is left, and is reducing that book a focus for you?

Tushar Morzaria, Group Finance Director

Yes, we'll do the best we can in the quarters to try and give you any significant moving parts. But no update on guidance in Q4. It'd be the same moving parts you've had, which is the legacy funding cost drifting off. We've still got Italian mortgages, we sold about a billion of RWAs to Intesa, and we'd obviously like to sell more to other buyers.

Costs are stuck at around £50-£60 million a quarter, and then there's the puts and takes of what's left in our treasury function. And I know it's a bit of a difficult thing to get your arms around, but we'll try and give you guidance as we go through the quarters. But no real updates. In the RWAs – you've got Absa, that's significant. And the other thing is, of course, the equity that will be in Head Office will include any equity that we generate above 13.5% of CET1. So you'll see that equity build up – if you like, "excess equity" that we'll hopefully be in a position to distribute. You see that dynamic go through Head Office as well.

Raul Sinha, JP Morgan

Should we still expect Head Office to trend to zero over time?

Tushar Morzaria, Group Finance Director

I doubt if it will ever get to zero over time. I'm not sure if there's a Head Office in the world that's zero over time. But it should be broadly stable and uninteresting for you guys in that respect. I think from our numbers last time, we were at 11% in the divisions on a returns basis, and effectively there was 2% dilution from Head Office to get us to 9% for the Group. We'd like to do better than that, but I think that's not going to change much prospectively. It'll naturally ebb away over time, but I don't expect a sudden drop-off.

Raul Sinha, JP Morgan

And the Absa lock up expires in Q4 this year?

Tushar Morzaria, Group Finance Director

Actually Q2 I think, from memory. I think May or June.

Kian Abouhossein, JP Morgan

On CIB can you just talk briefly about Markets? Leaving market growth or decline aside, what are you doing in terms of growing your business? If you can talk about fixed income and equities in particular. And in that context, how should we think about staff numbers in those businesses?

Tushar Morzaria, Group Finance Director

We've got a few things that we have grown, and I think will continue to grow. Areas of success for us in recent years, maybe the last six quarters or something like that, include primary CLOs. That was a business that we were very small in, if you go back two years. That's actually a very decent business in our fixed income area now. Obviously we're a large participant in the leverage lending market, so it sits quite nicely with us. Securitised products have been growing quite nicely for us over the last five or six quarters, and we feel very excited about that prospectively. It's a relatively small business, which gives us the opportunity to grow regardless of whether the market goes up or down.

Equity financing has been a good area for us as well. We did deploy, going back two years now, more leverage, but the mix of equity financing clients has also changed. We were probably overweight the quant algo type funds and underweight the traditional equity long/short type. I think that's looking like a better balance now, and equity long/short funds tend to be the set of participants in your primary calendar. You get slightly different execution demand from them than you would from an algo fund. So that's just three examples, and there are probably two or three others.

These are quite small product sets in a large bucket, but they're all growing. That's made a difference to us in the last two or three years. So that's why we have a degree of confidence that even if the market steps down again, we have enough small pockets of growth in that business that should offset much of that decline, depending on how sizeable that is. Obviously if there's a dramatic downturn, we can't defy gravity.

Another area that we did okay in – that we talked a bit about earlier on – was equity derivatives. That's been a nice journey for us in recent times as well. Corporate derivatives alongside our corporate finance business, that connectivity is working quite well.

Kian Abouhossein, JP Morgan

In terms of staff numbers?

Tushar Morzaria, Group Finance Director

Yes, staff numbers, I don't expect real growth at all there. There's the recycling of the calibre of individuals that we have. You'll see folks leave, you'll see folks join, but you won't see a net increase.

Kian Abouhossein, JP Morgan

In terms of capital, you're fully optimised on capital in that sense. There isn't any reallocation potential?

Tushar Morzaria, Group Finance Director

We're probably never fully optimised because that's the thing with the investment bank, particularly in the Markets business. You have to be extremely nimble in how you deploy things around. Are we as nimble and hyper-efficient as we could be? The answer would have to be no. We can constantly get better and better. I think the big bulk of capital reallocation around the Group is broadly behind us, but within Markets it's an incredibly nimble real-time operation that all banks do these days.

Ian Gordon, Investec

So can I just check the guidance for CCP in balance sheet terms. You obviously talked about ongoing run-off of the own-brand book and some J-curve growth from the co-brand products. So other things being equal is that modest net growth in '20 and thereafter?

Tushar Morzaria, Group Finance Director

Yes, I'd say low single digits net growth.

Ian Gordon, Investec

And then secondly, just on climate, it feels like you've had more scrutiny than your peers. Can you offer any broad guidance in terms of the commitments you've made? How much does that run-off cost in P&L terms, and then can you add anything on the RWA intensity of that business? Is it accretive or dilutive to returns?

Tushar Morzaria, Group Finance Director

Yes, it's a good question. So we are in dialogue with our major shareholders on how we'll respond to the Share Action resolution that will be put forward at our AGM. So more to come on that. Our AGM notice of meeting, which has all the resolutions and the board's response to those resolutions, is usually out six weeks before the AGM, or some time in mid-March. So that's when we'll talk more fulsomely about that, in three or four weeks' time. Between now and then it's quite an intense discussion with our major shareholders to gauge their views.

I think the reason why we, I guess, are more interesting to the NGOs that are involved in this space is that we have an investment banking business that's probably larger in the United States than some of our European peers. The United States are taking a different path with regards to the political and societal moves around climate change and this is why we are naturally an interesting person to be wanting to influence.

But taking a giant step back from all of that, we see it as much as an opportunity as anything else. I think we have the opportunity to set our objectives out before everybody else does, and perhaps be a thought leader and drive the market in a particular direction, taking into account the economic consequences for the industry, and particularly for ourselves. So more to come on that. Much more to come in the next few weeks.

Guy Stebbings, Exane BNP Paribas

Just a couple of very brief follow-ups. On Barclays UK and some of the headwinds publicised, you don't want to give a number in terms of the overdraft fee changes, etc, but on the structural hedge, before you talked about a £100 million run rate headwind based on swap rates, fractionally higher than where they are today. Maybe give us an update on that number.

Tushar Morzaria, Group Finance Director

Yes, that's about right. The £100 million on a full year basis is about right.

Guy Stebbings, Exane BNP Paribas

And then on CCP, and specifically US card growth, you talked about low single digit growth. You talked to the benefits to impairments from the mix effect, as you're moving away from the own brand. But for the revenue margin, presumably that's a headwind. How should we think about low single digit loan growth in terms of revenue growth in that line?

Tushar Morzaria, Group Finance Director

Yes, it's a good question. One of the things that I think you always struggle with when you have a small brand, and it has not been a great thing for us, is that you do get adverse credit selection. It's always a problem with being quite small. You want to be the first choice card, not the third or fourth choice card. And when you're a small offering you're always vulnerable to that. Our market share on the own-brand business is so small I'm not even sure there's a percentage to put on it, so the impairment experience wasn't good. I guess on the positive side, it would have been really difficult in a bad market, but it actually had been a pretty good market. It wasn't a great experience, but it certainly wasn't a disastrous experience.

Yet the impairment experience on the co-brand business has been really good, particularly on the airline products. If you look at net income, risk adjusted income, I would still expect income to grow, even with a reduction in the branded cards, and the growth can be subject to J curves and all that. But yes, we should be able to grow income in that business.

Guy Stebbings, Exane BNP Paribas

But pre-credit losses? Possibly not turning into risk-adjusted income growth?

Tushar Morzaria, Group Finance Director

We internally always look at it together. We never look at just revenues. That's just one way to get a really bad outcome.

Joe Dickerson, Jefferies

In the US, outside of the CIB, what exactly is the strategy? Because if I look at card receivables in the US, it's growing at about 3.5%, over time there's a limitation to that – I suppose you could take 100% of the

co-brand partners in the market, and that would be the ceiling. But is there a broader strategy? And if you look at the top ten card issuers in the US, I think there's only one that's just doing cards. Is there a plan over time to go into adjacent channels in US Consumer? And what might those be? Because it seems like there are some limitations, on a five year view, to the current strategy.

Tushar Morzaria, Group Finance Director

Yes, there is. I still think we have a lot of growth in the existing co-brand partnerships that we have. Take Emirates Airlines, I think there are two million people that fly Emirates in the United States, and not one of them has an Emirates credit card, so I don't know how many will, but there's an opportunity there over a number of years. Uber's another one we've talked about in the past, that's still an enormous opportunity which we've got a leg into in a very cautious way.

Beyond that, the area that is of interest to us – I don't think we will see any near-term developments there – is adjacent products. Do you want to be offering other loan alternatives to those customers rather than just revolving credits? For the persistent revolvers do you want to put them into fixed-term loans? That's something that you'd work on with your co-brand partner. You could put a brand in and still make it look like it's your retailer that's given you the better outcome.

Point of sales finance is something that's really interesting to us. Actually this one's probably more global. And we don't probably talk so much about it outside of the United Kingdom, but that's another area Ashok particularly thinks is an opportunity. So you don't need to have co-brand in the traditional credit card way, but you can do point of sale finance for retailers as an alternative. So you go into a store, and rather than swiping your card, you can get a hire purchase agreement or point of sale finance agreement. That's something that's worked out quite well for us. For example, in the UK, we're the point of sale finance partner to Apple for the iPhone 11. It's unbelievable how attractive a product that is. And one thing we've noticed through things like the Apple partnership is that it does feel like the younger generation is more comfortable with point of sale finance, or financing product, than credit cards, which my generation may have been more comfortable using. So that becomes quite interesting. And the same is happening in the US as well. So yes, I think moving to adjacent products is entirely possible. We will talk about it over the medium term, but not in the very near term, I think.

Chris Cant, Autonomous

I just had one quick one on credit. You had a non-step up bond that you didn't call recently. You called a lot of AT1s last year. Could you just tell us what's changed in your thinking around calling those bonds, please?

Tushar Morzaria, Group Finance Director

Yes. It was obviously an important question on the fixed income call. I would say nothing's really changed. We look at these things in the round. That euro pref, it's a bit unusual, almost like a legacy instrument, and the economics for that were so lopsided that it was very uneconomical for us to call that instrument. I think the others were much more finely balanced, and we look at these things in the round. And from the discussions we've had with investors, I think people understood our rationale, and don't look at that as any sort of readacross. One thing we've been very clear about is that we want to be good issuers and sensible issuers and reliable issuers. We want a long-term relationship with our debt and equity holders, so we won't do things that people will necessarily find odd or surprising. I think the euro one was just such a discrete, unusual bond, with such an enormous negative economics to us, and most people understood why we took that decision.

Guy Stebbings, Exane BNP Paribas

It wasn't anything to do with the tightness of the Tier 1 level in the bank?

Tushar Morzaria, Group Finance Director

The refinancing costs for us would have been uneconomical. There was no other driver other than that. It wasn't anything to do with our capital stack or eligibility or anything like that.

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