

**Barclays PLC Q2 2017 Results**

28 July 2017

**Results call Q&A transcript (amended in places to improve readability only)****Claire Kane, Credit Suisse**

My first question is on the CIB returns target. I think it's fair to say that expectations are low for returns going forward, and if you could perhaps give us an insight into where you expect to reinvest this £23 billion of RWAs from the loan book and how you are measuring the incremental return hurdle rate - is it a revenue to risk-weighted asset basis? And then my second question is on the cost outlook. I think on slide 26 your shading implies that the 2019 cost base will be lower than 2017, which is broadly in line with where consensus is already. And consensus does have your cost: income ratio in 2019 below the 60% target, but the return on tangible equity is only around 8%.

So I just wondered whether you could talk through where you think consensus is wrong or whether you think that the cost: income ratio needs to come in materially below 60%.

**Jes Staley, Group Chief Executive Officer**

So the CIB RoTE was slightly under 10%, and obviously where we want to get it to is over our cost of capital, which is about 10%. So we're going to keep the risk-weighted assets in the Corporate and Investment Bank flat, we're not increasing the capital allocation to the overall business. But as we look at our loan portfolio, which is about £90 billion of risk-weighted assets, there's a part of that loan book which isn't generating the returns that we think we should get.

With that, there are some parts of the Markets business where we do quite well – if you look at the profitability in Prime Services, if you look at the profitability of our Credit trading, and we have desks around the world that do quite well. We want to reallocate some of those risk-weighted assets to those desks and we think by doing that, we can have a measurable impact on our profitability.

The other thing that I mentioned in the opening statement which I think shouldn't be lost is that over the next two to three years we're going to have a significant improvement in the cost of funding the investment bank. We've got a lot of very expensive debt that was issued during the financial crisis which matures and comes off, we've got securities that are redeemable, so that will also have a material impact on getting that RoTE north of 10%.

**Tushar Morzaria, Group Finance Director**

And on the cost base, don't think of this as a cost target. I don't think you are anyway, but we just wanted to lay out some of the tailwinds that we have in terms of continuing to structurally reduce the cost base over the next year or so. And you can see that you would expect a lot of the build cost for our ring-fencing programmes, the costs of Non-Core, and the deferred compensation unwind, just naturally go away.

Jes laid out earlier in the call various opportunities where we continue to drive further efficiencies, some of which we will reinvest back. That reinvestment will be productive, not only in terms of continuing to generate further cost efficiencies but also could be productive in terms of revenue.

In terms of commenting on consensus for 2019 I'm probably not going to do that. And you shouldn't take the 10% returns target as a comment on a particular year because, of course, it will be driven by the broader economic environment that we'll be operating in - in a cyclical industry like this it's always difficult to predict that.

But I think what we're saying is we have enough levers here of things that we can control, whether it's managing our capital base, managing our risk profile and managing our cost base. We have a high degree of confidence that, all things being equal, we'll be able to get the company to deliver that double digit return at the Group level.

#### **Michael Helsby, Bank of America Merrill Lynch**

Tushar, I just want to follow up on that cost comment, because as Claire says, on slide 26 it does look like you're reinvesting most of the £1 billion tailwind that you're identifying. So I was just wondering whether you can tell us at the moment how much of that £1 billion you think you're going to be investing i.e. what's the investment plan that you've got so we can figure out how much of it falls to the bottom line?

And I appreciate you don't want to comment on consensus on 2019 for returns, but consensus has got costs falling by £0.4 billion from 2017 to 2019. So if you could comment on whether you think that's in the right ballpark that would be very useful.

And I've got another question on the investment bank. I was wondering if you could just comment on what's going on in Macro trading, because that was very weak again - it was down on Q1 and clearly you called out Q1 as very weak quarter because of the US rates loss.

The other thing in the IB that's interesting to me is that you really are calling out the strength in leveraged finance, where you've moved that business quite dramatically I think since Jes came into Barclays. So I was just wondering if you could comment on what risks are in the leveraged finance business and whether you're retaining any of the exposures on the deals that you're doing or whether it's 100% distributed.

And then finally in Markets, I'm actually really surprised by your comments about looking to reinvest capital in the Markets business. Because last year, on the Q3 call in response to a question, you specifically said that you had enough capital in the IB, and that given the agency model, that would suffice to grow the business and to deliver the returns.

So I was just wondering if you could be more specific on what Claire asked about; which bits of the Markets piece now do you think are, I think you used the word 'starved for capital', and therefore you're going to invest in? Thank you very much.

#### **Tushar Morzaria**

Thanks, Michael why don't I start with your question on costs and reinvestment and then I'll ask Jes to talk to you about the investment banking questions that you laid out.

So I understand, Michael you're really trying to get a sense of how much of that £1 billion tailwind we would be looking to reinvest. I won't give you a precise number on that as that will drive us back towards a hard cost target which, as you know, we're moving away from and looking to manage more the efficiency of the company.

But I think what you should hear from us is that that £1 billion is, if you like, capacity by doing nothing, that should fall away through the passage of time. Of course we will create further capacity through many of the actions that we have going on in our Service Company and we hopefully gave colour to some of the exciting opportunities we have there. We believe there is plenty of capacity to reinvest back into the company while also driving the efficiency of the company close to or below 60% ratio target in time.

So think of it that way. Don't think of it as just the £1 billion in terms of overall capacity, it will actually be more than £1 billion through other efficiencies. How much will we reinvest? We'll update you as we go along but it's too early to put precise details around that for the moment.

**Michael Helsby**

Sorry, Tushar, just to push you. Do you think around £400 million [of net cost reduction] is a reasonable expectation at this stage given everything you know about how the franchise is changing?

**Tushar Morzaria**

I understand you want help with the modelling. When I look at consensus costs that we published for 2019, I don't want to give a direct comment on that, but it's obviously directionally down. And I think, in terms of direction, yes we are going to have a lower cost base over time, somewhat driven by the tailwinds that I talked about, somewhat driven by further efficiencies we expect to generate. And I know this probably doesn't sound helpful to you, Michael, but offset somewhat by reinvestment back in. But the trend is definitely down.

**Jes Staley**

Michael, so let me take the leveraged finance question first. The gain in market share and moving up to second position within the industry, I think, is mostly driven by a very concerted effort to improve our relationships with the sponsors. We've made terrific progress with Apollo, with Blackstone, with Silver Lake, so it's just the hard work with the leveraged business. We are not keeping residual exposure or increasing our risk limits or doing transactions that we don't think make sense. It is basic 'blocking and tackling' primarily with the sponsors.

In terms of the Markets business, there are very profitable areas in the Markets space and we've been doing quite well in places like Credit. We very pointedly are saying we're not going to increase the risk-weighted assets allocated to the Corporate and Investment Bank overall. But there is a reallocation possibility from parts of our loan book to the Markets space where we think there are very solid returns. And I do think, whilst the whole industry has had a challenge in the Macro space in the second quarter driven by the low volatility that everybody has talked about, the trends in IB overall from advisory to underwriting, particularly debt underwriting, are I think reasonably encouraging.

And as you see on slide 7, the last few years we've had a steady progression improving the profitability of that business. And so reallocating the capital to places in Markets which generate [returns] higher than our cost of capital for us is prudent and makes sense. And that, combined with significant efficiencies and funding of the CIB over the next couple of years, does give confidence that we can get above 10%.

**Michael Helsby**

Thanks, Jes, so just to be clear, it's Credit and Prime Services – are they the two areas that you think you're going to boost the balance sheet?

**Jes Staley**

No, Michael, we're not going to get that specific.

**Michael Helsby**

Okay, thank you very much.

**Jonathan Pierce, Exane BNP Paribas**

Good morning. The first question is on the return on tangible equity target. I'm just wondering what your thinking is in terms of timeline. Lots of the targets – costs are as at 2019, a lot of the sub-debt matures by the end of 2019 – is this the exit rate, 2019, in the back of your minds? And maybe on top of that can you confirm that this target is taking account of all changes that may come up surrounding IRFS 9 and changes in risk weights re Basel, these sorts of things?

The second is on capital and it's a bit more detailed. I was surprised that the Trustees are happy for the entire UK retirement fund to go into the non-ring-fenced bank, that's a pretty positive development, I think. I was wondering if you could confirm that as a result of that, the Pillar 2A charge within the ring-fenced bank shouldn't end up any higher than what we see at the Group level today? And if I bring it all together, a bit of concern for many has been whether the combined capital requirements of the ring-fenced and non-ring-fenced bank would end up higher than the Group target. Given what you've done on the pension fund and given what S&P have said recently about the non-ring-fenced bank having similar ratings to current ratings, are you now pretty much entirely comfortable that the sub-consolidated capital requirement issue is no longer there, and there's no real threat to the overall Group Common Equity Tier 1 target?

#### **Tushar Morzaria**

Thanks, Jonathan why don't I take both of them. The first one was more about the return on tangible equity and the timing of that. Are we thinking about a 2019 exit rate and does it include all of the various things that may happen between now and then, for example, IFRS 9? I think the short answer to your question is, we're not going to put a date on it and it really goes back to controlling what we can control, but we are subject to the broader economic environment rate cycles and various things like that.

But we do have a degree of confidence that over what we can control and all things being equal, we could see the Group returns continue to push on higher and higher. And of course, we're very keen on getting to and above 10% as soon as we can but we won't put a date on it. I think that most people, when you guys have done your modelling, you probably have us getting into the mid-to-high single digits just by all things being equal through the various things that could go away. And I know that many people have talked about benefits that we'll be able to crystallise from the liability side of our balance sheet and that will come through over time.

On your question on capital and the subsidiary level capital, specifically Pillar 2A and the ring-fenced bank, I can't comment on that obviously. That's something that will be set by the regulators and they haven't determined it. I don't think it would be appropriate for me to comment in advance on that. But everything we see today does suggest that we think that the overall consolidated capital level and the capital levels that would need to be held by the two main subsidiary groups will look reasonably similar.

Of course they won't be totally identical because of the capital stacks are just formulated differently, which I know you're very familiar with. I think in broad terms, the three parts of the company, the overall group and the two subsidiary components will look quite similar. And you're right, we've been very encouraged by comments that S&P have made around the ratings of the non-ring-fenced banking group. And that's very much consistent with our expectations as well.

#### **Andrew Coombs, Citibank**

Good morning. I wanted to come back to costs, firstly; more specifically on this theme of cost reduction versus new investment and particularly on your IT budget. You've provided a couple of slides on IT; you talked about innovation, automation driving a structural cost reduction there. And yet at the same time, if I look at your UK detail that you've provided, you talk about cost savings being offset by investment in cyber resilience and new technology.

So when we think about your overall IT budget can you give us an idea of how much of your cost base that accounts for? How it's split between 'run the bank' and 'change the bank' and how that's been changing?

The second question is on the UK loan losses. Very simple question but you've gone up from £180 million to £220 million, and been running at £180 million for a couple of quarters. The increase seems to be in consumer and yet your arrears rates on cards is going down, could you just elaborate on the drivers there?

## **Tushar Morzaria**

On the cost reduction, particularly around technology, I'm not going to disclose the detail of 'run the bank', 'change the bank' and those kinds of components. I won't get into that. We will probably be talking more and more about costs. You've heard Paul Compton, our Chief Operating Officer, already give an insight into some of the opportunities that we have in the Service Company and over time we'll talk more about that.

But generally the name of the game here is to have a much more efficient technology stack which will structurally lower our cost base, and very significantly structurally lower our cost base. And that gives the capacity to reinvest. The kind of areas where we'll be reinvesting back into, some will be just, because it's important that we have the best technology around, for example cyber-resilience and that will require some investment. But also back into products and services. Jes talked about, and it doesn't get much external press but I can assure you internally and for customers and clients, the switching on of this Bpaid infrastructure over the weekend is an enormous undertaking and makes a tremendous difference to the quality and efficiency of our merchant acquiring network, which we are leaders in. And that's going to give us all sorts of enhanced opportunities in terms of efficiencies of that business but also revenue opportunities as well. Maybe that's a marker for now but more to come.

The loan loss rate, year-on-year we're about flat. I think you're probably looking at sequential when you're looking at the slight tick up. When I look at this, you'll get the seasonal effect of sequential quarters of the calendar effects of what we call 'collection days', which is a euphemism for how many business days in a quarter, and that can sometimes change the sequential impairment. Underlying this, it's a relatively stable set of impairment trends that we're seeing; delinquency rates are pretty low and stable, and if anything slightly lower than they were in prior periods, whichever one you want to measure. There's nothing that I'd read into that other than just traditional seasonal effects you normally see from the first quarter to second quarter. But in the UK at least, it does continue to feel very benign for now.

I would say that we're overall pretty cautious on the outlook and have said that for a number of quarters and continue to be quite cautious on the UK outlook and position our business appropriately.

## **Jes Staley**

On the technology spend side, we're currently engaged in updating our entire desktop software platform, it's a big move. We are in the process of moving the majority of our data to the cloud which will help cyber resilience. The larger picture I might paint, Andrew, is that we are very focused on the cost: income ratio of below 60% and we want to get there as soon as we can. Once we get to that 60%, I wouldn't push a whole lot further than that because we do have places that we want to invest in, in our technology platform.

## **Chris Manners, Morgan Stanley**

Good morning. Two questions from me, if I may. The first one was just having a think about the cost: income ratio again. You were talking of Group cost: income ratio of below 60%; I think you were saying Barclays UK should be below 50%, and if we look at where Consumer, Cards and Payments is at the moment, that's below 50%. So what cost: income ratio are you happy to run with in the CIB? And will that mix shift from Corporate lending to Markets have an impact on that as well? So where can we see CIB's costs run at?

And the second question was just on margins in Barclays UK. I guess that you're guiding to above 360bps [for FY17] and you're going to have a negative 20bps impact from the ESHLA transfer in the second half. Maybe you could just run us through a little bit of the margin dynamics. Presumably, asset pricing is still quite tough and you've got some deposit repricing. But how should we think about the underlying margin trends, if we ex out the ESHLA portfolio transfer? Thanks.

## **Tushar Morzaria**

On the cost: income ratios, you're right in that we are targeting a sub 50% ratio in our UK bank, and feel pretty good about getting there. As you can imagine, I don't want to go around publishing CIR targets for virtually every sub-component of the Group, but I know there'll be a desire to hear from us on CIB. But we're not going to give a target out. I think you'll have to make your own inferences from that based on the Group target and the UK target that we've called out. And this isn't hugely insightful for you, unfortunately, Chris, but you should expect the CIB cost: income ratio to continue to improve. And again, at the beginning of the scripted comments earlier today Jes talked about many of the opportunities we have to drive that further downwards.

Again, there's the rotation between allocating or the fine tuning of capital between some of our lending activities and our Markets activities. I don't think that naturally has any direct cost: income ratio drivers, it's more returns enhancing. Just because the returns improve, the cost: income ratio improves. But it's more of a returns enhancing objective than cost: income ratio, for the sake of that.

In terms of margins, asset pricing still continues to be quite a competitive market. Mortgage margins continue to be under pressure, and we do see that in our business. Our mortgage business is holding up very well. We called out on the call that applications are at a very high level, the highest it's been for a number of years, probably since 2008.

We haven't really changed our risk appetite there. It's really just us continuing to prioritise the parts of the mortgage business that we continue to like towards the lower risk end of the spectrum, sub 80% loan to value, and even a bit lower. That tends to be our sweet spot. But asset margins do continue to be under pressure.

Therefore, when I gauged the margin guidance earlier, we had a margin of about 370bps [in H117] on a like for like basis thus far, excluding the transfer of these Non-Core ESHLA assets back into Barclays UK. You would expect NIM to be down from the 370bps on a like for like basis, but higher than the c.360bps we guided to at the first quarter because I think we've done a reasonable job of continuing to be very disciplined on the liability side of our balance sheet, and not chasing asset margins down too much where it doesn't make sense for us.

## **Jes Staley**

The mortgage portfolio is another place, Chris, where the technology investment is beginning to pay off. We've rolled out a whole new technology platform for brokers across the United Kingdom to process applications for new mortgages with Barclays UK. And that has resulted in record numbers of applications being processed on any given day. So, that's another case of where technology is advancing the business.

## **Chris Manners**

Thanks, it sounds pretty encouraging what you're saying about the applications rate. I guess in Barclays UK, the loan balances have been flat for the last few halves at £166 billion, £167 billion. Does that mean we could actually see a pick-up in loan growth from you guys, if you've got such good applications? Or are you going to continue to filter strongly, keep the balances flattish, but make sure that you focus on your asset quality?

## **Tushar Morzaria**

I would say very small balance sheet growth, modest. So I think it will grow, but the growth will be very small. Asset quality is very, very important to us. We generally are very cautious, as you've heard us say, probably, for a few quarters on the UK outlook.

And, our returns are already pretty high in that business, and although we do want to grow and will grow that business, we're cautious about growing it. Prudent growth in the mortgage book is what you'd expect, but relatively small numbers on a net basis.

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

Good morning. I have two questions, please, and the first one is whether you have any view on when the Basel IV framework might be finalised? Do you still expect that there is a chance that this might occur later this year?

And the second question is a bit more broad I think, and it's just looking at Barclays' business model and Barclays' reach now being predominantly a transatlantic bank. Obviously, the world is undergoing significant change, in terms of Brexit in the UK and the requirement to ring-fence in the US, and the requirement to ring-fence in the UK, which obviously affects particularly Barclays compared to some of the other international peers. And potentially equally, the requirement to ring-fence within Europe, depending on what the outcome of Brexit is.

And I was just wondering, what do you imagine would be the impact on Barclays' business model? And are there already any changes you've noticed on the ground? Say, for example, some European clients preferring having a product counterparty which sits within the Eurozone going forward.

### **Jes Staley**

Martin, for sure, the impact on how we organise our business given regulatory reforms in the US and in Europe has been significant. Setting up the IHC, which we did last year, was a very major lift. It's got its own board of directors, its own CEO. But it hasn't changed at all the nature of our business in the US, be it in the consumer credit card space, or in the Corporate and Investment Bank.

The ring-fencing in the UK is even greater of a lift. Over the last couple of weekends we've been changing our core technology platform to allow for ServCo changes, but all of that is going to have to be up and running by Easter of next year. So that is also an adjustment, but again it hasn't changed the type of business that we do across the UK, whether it's with small businesses, or consumers, or institutional clients. The ring-fenced bank in the UK, the IHC in the US, they're all much more significant in many ways than what we need to do with Brexit, which we announced last week, in terms of expanding the extent of our bank subsidiary in Ireland.

We don't see any of these things as impeding, or ultimately, changing the execution of our strategy to deal with our clients across Europe. We're the largest underwriter of European sovereign debt; we don't expect that to change. We're the largest underwriter of Euro debt raised by non-European companies; we don't expect that to change. We have 1,200 people across the continent. In Europe, we have the largest credit card business in Germany.

So whilst we need to make the investments to make these structural changes in our organisation, I think the regulators have been pretty smart, actually, as whilst they've been asking for these structural changes, they have not impeded the free-flow of capital, nor have they impeded the free-flow of financial advice.

So the strategy of being a transatlantic consumer, corporate and investment bank stays, and we feel there's no impediment at all to execute that strategy.

### **Tushar Morzaria**

And, Martin, on your question on Basel IV, I don't have the inside track on the timing of this. But everything I can see, from my perspective, at least, it's difficult to see anything being announced before the end of the year. But I don't have the inside track, so just take that as one person's view, rather than anybody on the inside here.

**Edward Firth, KBW**

Good morning all. I've just got two questions. Firstly, if I look at IB costs, it looks like a very strong performance in Q2, I think they were down almost 10%. So I just wondered, assuming some broadly flat revenue outlook into the second half, is that a reasonable run rate? Or was there something special in that that we should think about?

And the second one, I'm just trying to get my head around the pensions and the whole concept of a pension deficit rising by £1.9 billion and yet your contribution is going down. And so I guess my question on that is that you haven't made an effort to actually start closing that gap, in quite a contrast to some of your peers. So is that simply that you don't have the capital, or is it that you think something in the assumptions might change of the next three or four years, which will mean that when we get to 2022 the deficit actually goes down in some way?

**Tushar Morzaria**

On IB costs, there's nothing particularly one-off in the second quarter that brings the CIB cost base down. I won't give forward guidance on another quarter, but there's nothing I would call out in this quarter.

**Edward Firth**

Okay. But it's a broadly normal quarter?

**Tushar Morzaria**

Yes. If anything, there was one item we called out which increased costs, actually, which was the deferred compensation unwind from last year. But there's nothing going the other way.

In terms of pensions, the way it works in the UK at least, is that the general guidelines by the pension regulator is that companies need to have a set of contributions that allows for any funding gaps to be closed over ten years. And that's what we agreed with the Trustees as part of this triennial [valuation]. If you look at the ten years' worth of contributions, it actually does close the funding gap that existed at the time of the last triennial. If you were to measure that funding gap, this second, it's actually quite a bit lower already.

None of us will know what it will be in 2019 when we have the next triennial [valuation]. So we'll see what it is and we'll agree the appropriate funding plan that satisfies the Trustees, and make sure that we continue to provide a very strong covenant, as an employer and sponsor of the scheme.

So, we're pleased that we have a very constructive dialogue with the Trustees. It's been there in the last two triennials, actually. The Trustees recognise that the most important thing for them is to have a very, very strong covenant with their employer.

And they're very constructive when they look at the capital pressures that the company may be under, and to ensure that they act very constructively within that context. And we've seen them do that for the last two triennials. So we feel very good about that.

**Edward Firth**

So just to be clear, I think in the past you've said your Pillar 2 buffer is used to cover your pension deficit. So I guess the £1.9 billion is about 60bps. Is that already in the Pillar 2 buffer? Or would we expect to Pillar 2 buffer to go up next time the Bank of England looks at it?

**Tushar Morzaria**

So the Pillar 2A component has a pension aspect to it. Now the Pillar 2A, there's no magic calculation that does that. What it's really trying to measure, qualitatively, is the volatility around the pension position with regards to our capital ratio. And, of course, our capital ratio is sensitive to the accounting measure of pension deficit or surplus. And it happens to actually currently be in a surplus. So just be

careful that we don't confuse the funding actuarial position of the pension scheme and the deficit reduction schedule that we publish, versus the IAS19 accounting measure of the pension surplus or deficit, which is used for capital, which happens to be in surplus today, and has been in surplus for a little while now.

**Edward Firth**

So there isn't anything in the Pillar 2 for pension deficit? Sorry, I thought there was?

**Tushar Morzaria**

No, there is. As I mentioned, there is a Pillar 2A component that measures, or puts aside capital, for the potential volatility in the pension surplus or deficit as measured on an IAS19 measure.

**Chris Cant, Autonomous**

I have two questions, please. If I could just follow up on the earlier questions on return on tangible equity and your 10% target. I appreciate you don't want to get into calling the business cycle or the outcome of Brexit negotiations, but I'm not sure the market's going to give you much credit for the target unless you give us a bit more colour.

If I say, hypothetically, we end up with a long transitional period, post 2019, no hard macro shock, provisionings broadly where consensus has it, which is a gentle drift up, and you've got those RCI maturities in 2019. In that scenario, would you hit that 10% RoTE as an exit run rate?

And the second is just a point of detail. You've said you're not going to increase the capital allocation to the IB. Is that the case, allowing for any RWA inflation from the fundamental review of the trading book? Thanks.

**Tushar Morzaria**

I don't want to get into too many hypotheticals, but I'm trying to be helpful. If we see the kind of environment that you're laying out, relatively constructive macro backdrop, assuming no whacky Brexit stuff going on, or impairment shocks, or anything like that, I think you'd expect the management team here to do everything we can to get to those returns levels. But that's not a target in terms of a specific date or anything like that. It's just to help you with the ambition and the confidence that we have around this.

In terms of CIB capital allocation and does it include things like fundamental review of the trading book, my sense is that fundamental review of the trading book is just an example, and you may have other points on this you want to call out, I don't think that's going to come in for some time. I'll be, speculating a little bit here, but my sense is it will be beyond 2020. The CIB capital allocation, as we see it, on a time measure that's medium-term, at least, as Jes called out, I don't think you'd expect it to change materially from where we are today, if at all.

**Jes Staley**

What I want to add, Chris, is, and I look forward to us getting away from Core and Non-Core, but over the last number of quarters, our Core business has been generating an RoTE of north of 10%. And that's with a capital number that's been growing quite a bit, as we got to the 13.1% CET1 print. So the Core business has been generating that 10%. And so one way to think about it is, if we are disciplined in eliminating our Non-Core expenses, which, I think, we've shown that discipline over the last year and a half, and if we have the ability to eliminate the costs that we currently have to endure to set up the ring-fenced bank in the UK, and that process ends in Easter of next year. Those two issues, plus as we work through the change in the compensation accrual that we initiated in the fourth quarter of last year, that will eliminate a significant amount of the cost drag that's been hurting the Group result and will hopefully allow for this conversion of Core with Group, which gave us the confidence to put out this 10% RoTE target that we've got.

We don't want to get connected to a date because neither Tushar nor I control what's going to happen with the global economy, with the markets, etc. But to your point, if we have a reasonably stable environment from where we have been in the last couple of years, and we eliminate the drag that the Group has had and focus just on our core franchise, we should be able to deliver that 10%, or better, RoTE.

### **Fahed Kunwar, Redburn**

Good morning. Just one question really, back on the investment bank, and the impact of technology. We talk about how technology might benefit mortgage margins, but the impact of technology on the fixed income and the institutional space that you're in, in the US in particular, it seems quite negative. If I look at the front book interest rate swaps, the amount that's trading on exchange now is three times more. If you look at what happened to cash equities, when that happened, margins plummeted over the last 20 years.

So how do you see the impact of technology affecting that institutional fixed income business? And are we in for a long period of margin decline that is, hopefully, offset by increased balance sheet and volumes? Thanks.

### **Jes Staley**

Well, there are clearly parts of the institutional market where technology is extremely important and it is defining the economic characteristics. I think the most salient would probably be the cash equities business, in which data processing and algorithms are critical, both for the cost of that business, as well as the revenues. The old days of eighths and quarters spreads are gone. But, in terms of the other parts of the business, particularly around Credit, I don't think you're ever going to be able to write an algorithm, given how bespoke and idiosyncratic the credit market is. If you take someone like Barclays, we have one stock, we have tens of thousands of CUSIPs. So there are other parts of the market that I don't think you're going to see technology supplant how systems are currently managed.

And then, technology and clearing houses, in many ways that should decrease risk, and the revenues to risk, or return can get better. When you talk to most buy side people, what I hear is, spreads are widening, the market's less liquid, more money is having to be paid to rebalance portfolios. And then I think you eliminate the impact of the Volcker Rule, and given the amount of capital that has had to be put behind investment banks today, the underlying revenue in that space is actually going up, in our view. So, I don't think it's as structurally impaired as you laid out.

### **Fahed Kunwar**

Just to follow that up, my last question. Are spreads improving in areas that require more balance sheet, whereas things that don't require much balance sheet, are spreads reducing? So is that why there's change of focus today towards more balance sheet deployment in things like Credit and Prime Services? Does that have an influence in your decisions, the way the technology is influencing the Markets business?

### **Jes Staley**

I think the rebalancing of RWA is more between the extension of credit and parts of the Markets business. The parts of CIB that are very capital light, like advisory, like debt underwriting, like equity underwriting, I wouldn't say the revenues are going down at all.

In fact, if you look at market volumes of debt issuances, from investment grade to high yield around the globe, it's got a very strong growth path to it. One of the advantages on the fixed income side is debt instruments have these things called maturity dates, which means they generally have to be rolled over, so you can actually predict, going forward, with a fair amount of accuracy the growth rate in the underwriting market, and most of the markets that we are in.

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The information, statements and opinions contained in this presentation do not constitute a public offer under any applicable legislation, an offer to sell or solicitation of any offer to buy any securities or financial instruments, or any advice or recommendation with respect to such securities or other financial instruments.

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