

Barclays PLC Q1 2016 Results

27 April 2016

Analyst call Q&A transcript (amended in places to improve readability only)**Michael Helsby, Bank of America Merrill Lynch**

Morning, everyone. Just three questions from me, if that's okay. Firstly, if we believe what we read in the press, and Tushar you touched on it on Africa, it looks like the stake sale of Africa could go a lot quicker than you envisaged when you announced it at the FY15 results. Without commenting on that, because I appreciate that would be difficult, but if you were to sell it early, can you give us some idea or some indication of how Barclays would look to utilise the capital released, and how you'd prioritise that in, say, if it happened in 2016?

Second question relates to the ESHLA write down in the quarter, which looks bigger. I know you flagged that you thought it would be higher, but it looks bigger than what, certainly, I would have expected. It looks like long-dated asset swaps have improved since the end of the quarter. Can you tell us how much of that £374m, if you'd have been looking at it today, you'd have already got back in Q2?

And then, finally, on ring-fencing. There's a lot of concern about ring-fencing in the market, and it's not just about one-off set-up costs, but it's about the ongoing impact on funding and capital requirements. You guys, consistently, have seemed pretty relaxed on this, so I was just wondering if there are any facts you can point to, that can provide the market with some comfort. If there's any comment on what you think the new funding spreads – you alluded to it in terms of the OpCo, but from the ring-fence point of view – might look like, need to look like, versus what they currently are on the blended back-book basis, at the moment? That would be very helpful, thank you.

Tushar Morzaria, Group Finance Director

Thanks, Michael. Why don't I touch on these quickly for you. In terms of Africa, you're right, we won't be able to, as you understand, make any comments on the process of the divestiture. I'll put that to one side. But on the hypothetical scenario that we would get regulatory deconsolidation, I think your question was, this year, what would we do with that capital?

We'd two things with it, really. One is we would like to deploy that into our traditional banking businesses, where we think we have really good growth opportunities. You saw us acquire the JetBlue Card portfolio as a partner brand in the US, there may be other opportunities there, although we've got to be very disciplined around pricing. We feel very good with the JetBlue portfolio, I think that will be quite accretive, but that will be an interesting area for us to think about. We would obviously want to expand our traditional UK banking presence in terms of putting to work corporate assets as well as consumer products. You can see that we have good market positions and good opportunities there.

And, of course, separate and distinct from that, we do want to accrete capital to improve our capital ratios as well. But I think the theme I'll leave you with, Michael, is that we will accrete capital. We'll probably do it at a more measured place than we've done it historically, very deliberately, and that's really to balance looking for EPS growth opportunities as well as just improving our capital position, which we feel, actually, pretty good about.

Moving on to ESHLA, you're right in a sense that spreads widened out, actually, in Q4 and widened out again in Q1. They've come back a little bit since. I won't quote a number for a couple of reasons. One is, it is a term structure, so I don't want to oversimplify it. You do have to, unfortunately, look through the full-term structure of ESHLA loans, and some of them are very long-dated, but not all of them are very long-dated. And the second thing is, of course, swap spreads will move around, and I think with the Brexit vote around June 23rd, it'll be very hard to [predict]. You can make persuasive arguments that they could tighten a lot from here, or they could widen again. And we'll manage through that.

The final question on ring-fencing, it's an interesting one. I alluded, a little bit, on this in my scripted remarks. I'll break the question down into the two components – you raised them as capital and funding. On capital, my expectation is that the ring-fenced bank and the non-ring-fenced bank will probably have to hold similar levels of capital as a regulatory matter. I think in the ring-fenced bank, there will almost certainly be some form of domestic-SIFI surcharge. We don't know what that is but that will need to be held there. At a consolidated level, we'll probably hold some form of G-SIFI surcharge, as we currently do, and pillar 2A will be split across the two entities, and various other components.

In the round, every time I've looked at it, I think you get to, broadly speaking, the same amount of capital held in both of the operating banks as at the consolidated level, so I don't see a huge amount of dis-synergy there. I mean, it is trapped as a legal matter, but because they're similar levels, I don't think it'll be quite as tricky as people might otherwise think.

In terms of funding, the way I think about this is it's really about the cost of refinancing our debt from the current bank [the operating company] to the holding company, relative to the cost of our existing

stock of debt. And, thus far, we've done quite a bit of that and we've got about £10 billion now in senior unsecured issued out of the HoldCo. We've been able to do that with the funding costs being broadly in line with our current stock.

Now, it depends where new issuance levels go, but at this stage, it actually feels like I don't expect a funding drag at all. We'll update you and you'll see new issuance spreads as they go through – the market will determine that for us. I think as we get more subordination in the holding company, which we're currently doing, I think, at the margin, that'll help as well. So I'll probably leave it at that for now and we'll talk each quarter on the issuance levels relative to stock. But at the moment, I think it's a broad wash.

Jes Staley, Group Chief Executive Officer

The thing I might just add to that is just that S&P has done a lot of work, obviously, on what we'll look like, and they've reaffirmed their rating.

Michael Helsby

Yes, can I just ask, Tushar, is there any way you could tell us what that blended stock cost is, because it's very hard for us from the outside? And then we can monitor, as new issuance comes through, which we're not able to do really at the moment, and I think it really is an important point.

Tushar Morzaria

Yes, it's a fair question. I won't call it out now, obviously, but it's something we'll think about for, maybe, the half year. It's a fair question, and we have had others ask, so something we'll take on board.

Michael Helsby

Thank you.

Andrew Coombs, Citigroup

Good morning. One follow-up and then two further questions, please. Just repeating Michael's question, but slightly more directly on the deconsolidation of Africa: if it were to happen earlier, would you also review your 3p dividend policy over 2016 and 2017?

And then, the two fresh questions, one on the Non-Core rundown: we didn't really see evidence of the acceleration of the Non-Core rundown in Q1 numbers, but you did provide the number of steps that are underway to reach that £20 billion [2017 RWA] target. You flagged the £3.4 billion on the agreed sales of Asian Wealth, Portugal [retail] and the Italian branches, but perhaps you could just provide more detail on the timing and also the quantitative RWA reduction from some of the other steps? So, the French branches, the legacy derivatives agreement with JPMorgan, the exit from the nine countries in

CIB.

And then, the final question would just be on Barclays UK income. You've seen a dip there in Personal Banking and consumer revenues. You refer to European interchange, fee income on the consumer side, and then mortgage-margin pressure on the Personal Banking side. Do you think we've now reached a rebased level, or is there further to drop out on that line? Thank you.

Jes Staley

Maybe I'll just briefly touch on the first one, Andrew, then pass it to Tushar. Obviously, the dividend policy is the domain of our Board of Directors, and I think, beyond that, what we stated on March 1st, I'll just reiterate again: we want to give ourselves all the latitude to accelerate the closure of Non-Core, and we strongly believe that getting Non-Core closed and converging the Group ROTE with our Core ROTE is the best way to enhance shareholder value, in the short term.

Tushar Morzaria

Thanks, Jes. On Non-Core, Andrew, yes, just to reaffirm, we do think we'll get to the £20 billion [of RWAs] at the back end of 2017, and look to close Non-Core – or fold it back in, I guess, more accurately, into Core – by then. In terms of timing of reduction, our expectation is that many of the announced sales that are out there at the moment should close by the end of the year. We obviously can't guarantee that in all cases.

You may have also picked up on the wires this morning, we entered into, or announced entering into, exclusive negotiations with AnaCap on our French retail operations. That's subject to some quite strict approval regime in France, it needs to go through a works council and then, also, through regulators, so we can't always determine when these transactions will complete. But the expectation of them is that we would expect to complete a lot of them this year, and to the extent we don't, they'll probably be in the earlier part of next year, and we'll probably be able to update you in a bit more detail in the interims, as we get through that.

Derivatives are a continual march down. We took another £3 billion or so out of derivatives risk-weighted assets this quarter, and that's been the steady run-rate. Sometimes it'll be a little better, sometimes it'll be a little bit lower, but that sort of scale is what we're marching down.

So I think the message I'd leave you with Non-Core is that a lot of the work will probably get done this year. I'd like to think a lot of the financial effects of that work will, therefore, be very transparent as you get into 2017, and we'll update you as we go through this year as to what to expect.

In Barclays UK, Personal Banking, you called out interchange and mortgages. In mortgages, we have

seen a little bit of plateauing out in margins. I do think that there'll still be quite a lot of pressure in some parts of the residential mortgage market. Probably a little bit less relevant to us, just because it's not something that is a core part of our lending book, but I think buy-to-let still feels quite competitive, and some of the high LTV or interest-only-type products still feel quite competitive. It's a relatively small part of our new production, so probably a little bit less impactful to us, but it's still a competitive market.

EU interchange, there'll be a rebasing effect over the course of this year. I think, in the round, when you look at all of that in the aggregate, I still think it's reasonable to assume that revenues in our UK business will be broadly flat, year on year. In other words, we should be able to offset any compression in margins or fees by underlying organic growth in those businesses.

Andrew Coombs

That's very clear, thank you. Just one more – Core equity allocation looked to be up 10% versus RWAs up 2%. Is that just the way in which you allocate, or is that other reserves? What's driving that?

Tushar Morzaria

Yes, so what we've tended to do is to allocate capital out, really tracking the Group capital ratio. Last year, we were allocating out at 10.5%, this year we're allocating out at 11.5%. And as our capital ratios improved, you steadily drift that up. That's all that's going on there.

Andrew Coombs

Okay, very clear. Thank you both.

Tushar Morzaria

The other thing, actually, Andrew, which you picked up on the script, and maybe other people may find it helpful as well, is Africa. It's important that people are aware of this; you've seen that we've disclosed Africa as a discontinued operation. The capital associated with that, however, we've retained in Head Office in the Core. Now, it's not productive capital in the Core because it's used to support our Africa investment, but that obviously sits in our Core business as well. So to put it in other words, forward funding the potential release of our RWAs from any divestiture of Africa over the timeframe we're talking about.

Jonathan Pierce, Exane BNP Paribas

Morning. I've got a couple, actually. The first one is on costs, and this is just for clarity. The cost target is still £12.8 billion in Core for the year. When you set that out at the full-year stage, that was assuming that £600 million of costs moved from Non-Core. Obviously, in the restatement we can see that that figure was nearer £900 million. Is the difference simply that through 2016, the £900 million cost base will be averaging £600 million as you sell things down, or is there some underlying change to that Core

cost target we should be thinking about? That's the first question.

The second one is on bond sales. We won't see until the interims whether there were any gains on AFS securities in the quarter, but there was a £20 billion reduction in the government bond portfolio in Q1. We can also see that the AFS reserve fell, in terms of its value, in the first quarter, despite the big drop in swap rates. I'm just wondering if there was any income in the first quarter, relating to what we might view as one-off government bond sales?

Tushar Morzaria

On costs, Jonathan, no change to the target – you're absolutely right, we're on target to get to our £12.8 billion [Core costs in 2016]. The prior year versus this year, when you look at the restatement, it's nearer £900 million versus the £600 million we said in terms of perimeter switch. The difference is Barclays Wealth Americas, which is about £300 million [of annualised costs]. Now, because we sold that at the point at which we were talking to you, it doesn't really affect the perimeter switch into 2016. So it's a net increase of £600 million coming into 2016. But if you go back, that £600 million, plus another £300 million last year from Barclays Wealth America, that's the difference there.

On available-for-sale, we did have some gains in Head Office, not so much through bond sales, but actually through liability management exercises, two of which we did last year. We did a senior unsecured earlier in the year, and then we also bought back some tier two as well, both out of operating company, and issued back out of the holding company, actually, in senior unsecured form. And we bought those bonds back cheaper than we issued them, so there's some gains there. And we'll try and do that wherever we can, opportunistically. Excluding that, the movement in the available-for-sale portfolio, the Treasury positions actually in many cases are asset-swapped as well, so they are a function of both dollar asset stock levels and gilt asset swap levels. Most of our Treasury portfolio is in super-high-quality government bonds, so it'll track that.

Jonathan Pierce

Okay, that's helpful. Can I just ask one follow-up on revenue? I think you talked earlier about improving the liability margin still further through 2016 to offset some of the asset-spread pressure. The full-year report and accounts show that, on UK balances, you were paying 18 basis points excluding the 0% current account, so just wondering how you're managing to do that or is it literally squeezing the last bit out this year, and then any opportunity thereafter is gone?

Tushar Morzaria

You're right in the sense that it's getting a little bit harder and harder. We haven't had to pay up for deposits or liabilities historically, so we have less, in some ways, to grab back. We have been able to successfully do that; we re-priced some of our ISA products and some of our more traditional savings

products. We think we can continue to do a little bit more of that to offset mortgage-margin pressure, but you're right to point out it will get trickier if margins continue to compress more than we would expect.

Jonathan Pierce

Okay, that's helpful. Thank you.

Manus Costello, Autonomous

Good morning, everyone. I have some questions on CIB capital, please. Thank you for giving us the RWAs within the CIB division. I wondered if you could explain why this quarter, RWAs appear to be up in CIB, they're up about 3%, but the allocated equity in CIB is down? And I noted that your PVA deduction went up; I would have thought that your allocated equity to CIB went up as well? So if you could just explain that movement to me, that would be helpful, thank you.

And secondly, more structurally, CIB is about 55% of your Core capital RWA allocation; if I think about things going forward, we've got the review of the trading book, which you've already said will add about £10 billion of risk-weighted assets, and the new proposals out on credit risk suggest that large corporate exposures could well see increased risk weights. So isn't it inevitable that that CIB business is going to grow within the mix of the Group to be more than 55%, simply from regulatory change, which will leave the Group with a mix even more skewed towards CIB? Thank you.

Tushar Morzaria

Yes, thanks, Manus. We took on board your feedback on wanting to see RWAs, so hopefully that was helpful. On the capital versus RWA, it's really a simple feature of the fact that capital is an average allocation over the three-month period, whereas the RWA print is period-end, so obviously that'll fluctuate intra-quarter, and that's all. That's the difference.

Manus Costello

So that means that we should see the allocated equity – assuming flat RWAs – pick up, then, through Q2?

Tushar Morzaria

It depends what the average will be over the Q2. And the other thing is, of course, PVA. I just want to cover that as well. Not quite entirely, but most of our PVA is from Non-Core. It's actually driven mostly by the ESHLA portfolio, so it will move around with that. In terms of your more broader question around capital allocation, the way we think about it is, there are many different ways people may look at it, but the lens that we use is, when we look at market risk risk-weighted assets and operational risk risk-weighted assets as a percentage of what's in the Group – actually let's look at it from just market

risk and counter-party credit risk – I think you're at about 20% or 19% if you just add those two up, so you're left with 81% in traditional credit risk and operational risk [RWAs] within the company.

And we feel that, as we are a bank at the end of the day, you'd expect us to be much more skewed towards credit risk. That's the core nature of what we do for a living; operational risk is something that's a little bit less variable and a little bit harder for us to move in any short-term timeframe. So that feels about right. Now, your point on credit risk – how's that split between retail and consumer-related credit versus corporate credit – and again, we feel we've got the balance right. We have a very successful commercial bank and commercial lending operations, they make good money for us, as well as consumer credit as well. But that's how we've thought about it and we feel kind of comfortable with that capital allocation and that diversification. I don't know if, Jes, there's anything further you want to add on that?

Jes Staley

I'd just add: there is no strategic intent to increase our relative capital allocation to market risk and counter-party risk.

Manus Costello

And on the point about the credit-risk changes that have come out Basel, or the proposals that have come out of Basel, do you think those would increase the large corporate risk-weights?

Tushar Morzaria

Yes, it's a good question, Manus. It remains to be seen, and I say that because we've seen quite a few revisions to the rule set. And review of the trading book was probably a good example of that, where it was quite difficult to estimate before you get the final rule set because the outcomes tend to be quite different. I think operational risk may be similar; I know some of you have written about that. It'll be quite hard, I think, to see where that calibrates. And I think credit risk, I think we have to look at it in the round. At the end of the day, for both Jes and I, we want to run an appropriately diversified set of revenue streams, and if we do feel we're over-concentrated in any one particular sector, we would look to rebalance. It's not our expectation, but it's something we're not shy of addressing if it's necessary.

Jes Staley

We're also very mindful of where we have high returns on tangible equity right now.

Tushar Morzaria

So we'd know where we'd want to put more capital, if we had it.

Manus Costello

Got it. Okay, thank you.

Jason Napier, UBS

Good morning to both of you. Two questions, please. The first was around income generation in the investment bank. First quarter numbers were well above what, certainly, we had in our expectations, but there is a reference made in your statement to April being somewhat slower than the first quarter. I just wondered if there was anything to call out in the first quarter performance that you might regard as exceptional, or whether we're, at least at this early stage, looking at a second quarter that's down for calendar reasons? Last year the business was down about 5%, quarter on quarter; is that the quantum that we're guessing at, at this early stage?

And then, the second question, also on that subdivision. Yes, you've obviously spent more time with the business now, it's been under your custodianship for a longer period now; 7% ROTE in the first quarter, calendar-strong, no UK bank levy, it's certainly sub-5% on a fully-allocated basis; would you be willing to share your impressions as to what cost-income ratio you think this business ought to run at, given that, as a firm, you're clearly saying that the restructuring effort – and certainly the restructuring costs – are coming towards an end? What cost-income do you think is optimal for the mix of business that you're in charge of now? Thank you.

Jes Staley

First, to the IB income question, Jason, I think we did very well in the first quarter, in terms of capturing our market share in the principle activity in DCM, both in New York and in London, as well as in the leveraged finance space. As Tushar pointed out, transactions like the leverage buy-out of ADT, etc. , helped us to gain an important market share. So it's an income number that we like because it's not based on some trading position that the investment bank took different from other people in the industry, and I think it's a function of the work that our bankers did to raise our profile in the primary calendar.

I'll let Tushar talk about April and the second quarter, but in terms of the ROTE of the CIB, it's at a little north of 7%. Obviously that's not an acceptable return on tangible equity for us; we clearly want to get that number above our cost of capital and we're going to work actively on a number of fronts on the cost side, whether it's the synergies for merging the Corporate and the Investment Bank, to the work that we'll be doing on the operations and technology side, particularly with Paul Compton coming on board. And another thing which is very important which is different to our US counterparties, because of accounting treatment, we cannot move the cost, the performance cost [charge as much as we would like], in 2016 so you should note in the comment that I made at the outset that we recognise that IB revenues year over year were down, slightly. but down. And we also clearly saw what happened to the accrual of bonuses in the banks that reported last week and we will adjust our 2016 bonuses

accordingly. So we have less ability to show you that on an accounting basis, but we are very mindful of it and we recognise that we've got to a double-digit return on tangible equity for the CIB. Let me pass it to Tushar.

Tushar Morzaria

So on April, Jason, yes slightly down on Q1. You were throwing out whether that feels like 5% [decline quarter-on-quarter]; I don't want to make a call on the quarter because we're only three and a bit weeks in, but looking at my lexicon, when I say "slightly" it's probably not a bad proxy.

Jason Napier

Thank you. If I could just follow up on the cost-income fishing expedition that I embarked on; I appreciate the issue of deferred bonuses and fixed costs and so on, but in the medium term abstract, given the mix of what you've got, it doesn't seem a great sense that in the ongoing bank there is a big drive to change mix. It certainly feels like the firm that you used to work for is a good 10% lower; do you recognise that sort of order of magnitude in what you're trying to do here?

Jes Staley

Well current [FY15 Group statutory] cost to income [ratio] is about 83%, right, and our target is to get it below 60%.

Tushar Morzaria

And our old firm, Jason, it is a slightly different business but in some ways we're less beholden by necessarily driving to a specific cost-income ratio in something like a Corporate and Investment Bank because we're really after structural reductions in cost that are permanent and on-going, and really after getting to a double-digit return. That should lead to obviously a lower cost-income ratio than the one we have now but it's not a specific number we have in mind, we just want to keep driving costs lower and lower as an absolute matter.

Jason Napier

Thank you.

Chris Manners, Morgan Stanley

Good morning, Jes, good morning, Tushar. Two questions, well three questions maybe if you can be that generous. The first one was on Brexit; obviously you're saying that you're cautious ahead of the referendum – how should we think about the impact of that on the business? And assuming we do get a remain vote when you're less cautious, what impact could that have?

Second question was on the stress test; obviously you've given us the disclosure of your systemic

reference point of 8.7%. In December you had an 11.4% CET1 ratio so you've got around a 2.7% buffer. You had a 2.9% drawdown in the test last year, and they're obviously making it harsher in the US, so how confident are you on not breaching the systemic reference point in the stress test and are you taking any actions on that?

And the last point was, it was actually a fantastic result in Q1 on Credit there, seemed to be up about 50% on the last seven quarters' trailing average; how sustainable should we think about that? Is that actually a bit of a one-off or is that actually a better run rate and a better share you're taking there? Thanks.

Jes Staley

Maybe I'll take your last question, Chris, and then pass to Tushar. Obviously we'd love to maintain that market share, but that's a very difficult thing to predict. What I would underscore is, on March 1st we stood up and said that the Core franchise of Barclays is to be a transatlantic consumer, corporate, and investment bank, and so I think a focus on getting that business right is part of our strategy, and I think that may have contributed to some degree to what we saw in the first quarter. The idea is to continue to manage the RWAs, to continue to take low levels of market risk and counterparty risk, and to try to increase business like we saw in the credit line and hopefully we can keep that moving forwards.

Tushar Morzaria

Yes, and Chris, on Brexit, when we say we're cautious obviously with the referendum coming up, it's probably 'more' cautious as we're running probably a higher LCR than we would otherwise do, at 129% we've probably got one of the higher LCRs out there. Our NSFR is actually in pretty good shape as well and we're very much close to home on very other measures of risk. So I think if it feels less certain, then I think you'll see us be able to deploy some of that liquidity to work more productively at the margin.

In terms of the stress testing, you're right to point out the draw-down from last year; of course the thing to get aligned at is the draw-downs by year because a pass mark is now obviously a multi-year pass mark, it sort of varies as you go further out into the stress test cycle. We actually feel okay with everything we've seen thus far. It's obviously still early days yet, we've got a lot of modelling to do and a lot of number crunching to get done and exchange that with the regulators, but in terms of the stress test itself it's not inconsistent with stress tests that we run for ourselves internally as a regular matter. So it's not something that feels that different to anything we've got internally and that we would run for ourselves. So at this stage we feel okay with everything. Obviously a lot more work to do over the summer.

Chris Manners

Perfect, thank you very much.

Joseph Dickerson, Jefferies

Hi, good morning gentlemen. A few questions if I may, firstly on ESHLA; this has been a source of below the line pressure for you for some time, it's a large part of your PVA deduction, it would seem that it's a relatively attractive asset to someone. Could you list the options that you have for that portfolio? And then the second question I have, this is returning to the dividend; could you list the milestones that you need to reach before you increase the dividend? And then thirdly, in the outlook statement where you talk about the performance in the CIB revenue in April being down on Q1 16, why did you make that statement given that you don't want to make a call on the quarter? Thanks.

Tushar Morzaria

So why don't I, Joseph, take the first and third and I'll let Jes take the question on dividend. It is an attractive asset, ESHLA. There are natural buyers out there, insurance companies or even pension funds, anyone that wants to receive fixed cash flows, long-dated stable fixed cash flows. It is a large portfolio and we're working through passing pieces of it out where it makes sense and we'll continue working on that.

In terms of the outlook, it's trying to be helpful really. It's difficult for us to make a call on the quarter when we haven't even finished the first month, but just to help folks think about how the second quarter started off, it's just to give you a sense of what it feels like. None of us will know for sure what May or June feels like but we're going to just tell you what revenue run rates look like at the moment. Jes, do you want to answer the dividend question?

Jes Staley

Again, we moved the dividend to three pence for 2016 and 2017. The goal is to accelerate the closure of Non-Core. We've walked through a whole series of things we did in the first quarter and you've got a good preview of things where we have signed purchase and sale agreements but we've yet to close, as with Asia Wealth or other businesses. Let's track how Non-Core closes and how we converge the Core results with the Group results. And obviously when we are able to do that, that gives us much more flexibility.

Martin Leitgeb, Goldman Sachs

Good morning. I have three questions please, and I wanted first of all to follow up on the IB revenue questions touched on earlier. I was just wondering what in particular drove this change you had in Credit? What sub-segment within Credit contributed most? And obviously the reason for the question is, credit yields are at a high during the quarter so inventory should be negatively impacted. And equally primary issuance volumes seemed to be subdued during the quarter, and nevertheless Barclays had an almost 50% increase year on year on that revenue line, so I'm just trying to get a better sense for what

happened here.

The second question is on the upcoming FBO rules in the US and how you are going to adjust your subsidiary and your capital positions there going forward; I was wondering if you could shed a little bit of light on what your current plans are there, obviously in light of the upcoming inclusion in the first non-public CCAR next year?

And the third question, and that's to touch on Barclays UK; you mentioned obviously your cost ambitions, in particular within the IB. I was just wondering if we could just see a little bit of light in how we should think directionally in terms of the absolute level of cost within Barclays UK in light of the ongoing branch reduction, whether we should expect the absolute number of cost there to edge lower from here or whether you think you're going to reach the stable level going forward? Thank you.

Jes Staley

Maybe before I pass to Tushar, Martin, to hit those questions, I think just one other quick comment on the dividend, which is: we fully recognise that a robust dividend is important for the total return to our shareholders and we fully intend, when we are in a position to, to pay a significant portion of our earnings out in dividends. So I just want to make it clear we do appreciate that and understand that.

Tushar Morzaria

Thanks, Jes. IB revenue, so really your question was on Credit, Martin; we don't carry much inventory, our business is much more low-risk level than high velocity, if you like, so to the extent that there are significant mark-downs in inventory, or indeed mark-ups, we would be less impacted by that. So the good performance this time round was very much providing liquidity and trading bonds and credit instruments on the back of the good market share that we had in debt capital markets, where as I say, we improved our relative market share of the declining fee pie, so a larger share of that declining fee pie was helpful to our secondary business as well. And we feel very happy with the progress that we've made there in repositioning that business.

In terms of the FBO rules in the US, there's really nothing I would share with you thus far other than what you've already got out in the public domain. You're right, we do a private CCAR next year and a public CCAR the year after, we're well on track to participate in that. I'm sure we'll learn a lot from the private CCAR and I think we're in pretty good shape in terms of reorganising. As a legal matter, our business is under a single intermediate holding company but also ensuring that we're compliant with all the rules and regulations that will be applicable to it.

Finally, your question on Barclays UK and the absolute cost level; I would expect costs to continue to come down; the potential integration of our UK card with our UK retail business, you mentioned branch

footprint, the increasing use of digital channels, and Ashok and team with Amer, have got some exciting things that they're working on in the cost front there so I think that will be a continuing story for us for some time.

Martin Leitgeb

Just to follow up on your comment on the Credit revenues, just wondering, liquidity seemed to be at a very historic low in the first quarter so how could [you have increased revenue so much]? Did you see such a jump in your market share or was it single trade specific that you had one or two positions that went very well during the quarter?

Tushar Morzaria

As I say we weren't carrying a lot of inventory; it's flow credit that's really our business, we don't play around in perhaps the distressed piece, we're not so significant in securitised products, so in areas where there was very little liquidity where perhaps others were carrying more inventory, it's just less impactful to us. Ours is probably a little bit simpler business so if there's a strong rally in those sub-asset classes within credit, that will be less impactful for us as much as it doesn't impact us on the downside.

Fiona Swaffield, RBC

Hi, morning. I just wanted to follow up on your Non-Core revenue guidance; it's just that having had a better Q1 than I would have thought, £132 million positive, I think, ex-ESHLA, what's driving the implied negative delta ex-ESHLA for the next three quarters? Is it that you're taking losses on divestments, or is the £196 million Businesses [income] falling very, very quickly? If you could help with the moving parts there, thank you.

Tushar Morzaria

Sure, thanks, Fiona. Yes, you've kind of answered the question actually. It really is very much the potential cost of divestiture as we go through the course of the year. We talked a little bit earlier about France, we'll see what that transmits to ultimately when we do a deal, and we've got a couple of other businesses out there as well. Of course there is continuing potential cost that we'll incur in terms of derivative exits as well, and various other securities and loans, most of which are capital neutral to capital accretive, but here is a negative headline on revenue, so really that's all that's going on there.

Fiona Swaffield

Could I just ask in follow up, was it just that in Q1 you just didn't see those costs, for example in derivatives?

Tushar Morzaria

Well we did, but we did better than we thought we would in terms of managing through some of the derivative reductions within the revenue budget that we had for ourselves. That's not always going to be the case so I think the budget still holds, but sometimes we'll do a bit better, sometimes we won't do as well.

Fiona Swaffield

Thanks.

Fahed Kunwar, Redburn

Hi, morning; just had a couple of questions on ESHLA really. The first one is, just so I'm clear, if the gilt asset swap spread doesn't move, does that £374 million loss in the quarter go away in the second quarter? And the second question was just on what was the capital impact from that ESHLA loss? Is most of that added back so you don't get much of a capital hit apart from the PVA deduction? If you could just split the £374 million up between what actually hits the capital and what's taken out that would be very helpful, thanks.

Tushar Morzaria

Yes, so to step back, what goes on here is we have a portfolio of fixed rate loans that are marked to market using gilts rates, and then are hedged with interest rate swaps, so that package is exposed to movement in the gilt asset swap spread. If rates move where gilts and swap rates move completely in tandem, then it's well hedged. But if there's any movement in that basis between gilts and swaps, that will flow into P&L. So if the spread doesn't move literally at all over the full three months of a quarter, you see virtually no P&L necessarily coming through there, but of course it's much more complicated than that because it's a term structure and rates will move even though it looks like the 30 year point may not have moved, [for example], the ten year point almost certainly will have, and the 25 year point will have moved and what have you.

So it's quite hard to distil it out into a sound bite that I think people will look for. I will, just to try and be helpful, generally say if the curve term structure of gilt asset swap spreads widens, generally that will cost us money. If it tightens, generally it will make us money. But as I say it's a little bit more complicated than that because of the ladder of positions that we're running.

In terms of capital impact, it's not a straight direct transmission into capital deductions. There is a small amount that goes against our capital, again positive or negative, depending on which way it goes, and that's included within our PVA deduction. The change in PVA this quarter was actually unrelated, or materially unrelated, to the movement in spread. It was actually a methodology change that we'd been working behind the scenes with the PRA for a little while. When I was talking to you folks at the end of the first quarter, we had in our mind that that was probably something that would get finalised in the

first quarter, and hence I called out that our capital would probably go back a touch in the first quarter, which is what has happened.

Fahed Kunwar

Okay, that's very helpful. Just so I understand, the £374 million [ESHLA loss in Q1] without the PVA deduction did directly hit capital net of tax this quarter?

Tushar Morzaria

Well a piece of it does, not all of it; a fraction of it does but certainly not all of it. It's not a direct transmission one for one.

Fahed Kunwar

Okay, perfect. Thanks.

Peter Toeman, HSBC

Good morning. A feature of this call is, you referred on a number of occasions to the variable compensation in the Investment Bank and I recall at the analysts' breakfast you talked about the possibility of being able to [charge more] of the prior year [deferred] bonuses and treat them as an expense, or at least you sort of hinted on that. So am I right in thinking this is something you're now actively considering?

Tushar Morzaria

It's something that we've had in our minds for some time but we've got no plans to do that. There's a lot of stuff to go through first and foremost, so to the extent it becomes anything concrete in our thinking we'll obviously update you, but don't plan to do it at this stage.

Peter Toeman

Thank you.

Sandy Chen, Cenkos

Morning, gentlemen. Two questions, one small, on market risk CVAs; in CIB it looked like it went up about £1.1 billion in the quarter, could you just talk a bit about that? And then the second is more an over-arching question; if I heard correctly, and correct me if I'm wrong, in the IB I think what you're signalling is that you won't allocate additional RWAs or capital capacity to it and that you are exploring options of cost cutting either on the wage bill or in terms of the back office. Could you give a bit more colour on that? And the obvious question is that when I kind of do my maths, I still get to about a 3% ROE on a, say, 12% CET1 capital requirement, and are there any other options in terms of realising value in the IB that you might now consider? Thanks.

Tushar Morzaria

Yes. The market risk question, the market risk CVA, there's nothing I'd call out there, that's just regular way stuff. You can see that risk weighted assets in the Corporate and Investment Bank are actually only affected by foreign exchange rates, so we're [broadly] flat on a relatively low print from year-end.

Sandy Chen

Oh so it's just the FX?

Tushar Morzaria

Yes, nothing to call out there. I'll hand over to Jes to cover investment banking.

Jes Staley

We fully understand in the CIB that there needs to be a correlation between revenue performance and compensation performance, and as I said in the preface to this call, we will accrue the 2016 bonus pool appropriately given that revenues were off slightly year over year, and what we saw the street do. I think everyone in the Corporate & Investment Bank at Barclays recognises the connectivity between our relative performance and how we pay bankers.

Now the ROTE in the CIB is above 7%; that's not where we want it to be and as we've talked about, we will take cost measures, both the synergies of merging the Corporate & Investment Bank together, re-engineering of the operations and technology for the Investment Bank, which is one of the biggest cost places that we have and we are going to focus very hard on that. The correlation of compensation to profitability, we will manage that as well. And then also don't forget that like you've seen in the first quarter, we hope to improve the revenue performance as well. But it is our objective to get the return on tangible equity for the Corporate & Investment Bank above our cost of capital and we're going to work very hard on doing that.

That said, it is a strategic part of the diversification of our revenue stream as an overall bank, and we believe that there is value in having balance between consumer and wholesale banking so that is part of our strategy.

Sandy Chen

Okay, thank you.

Tom Rayner, Exane BNP Paribas

Good morning, thanks. Just maybe just finish with two if that's alright. Firstly on the capital, just looking at your slide 15 and your consolidated go-to ratio, looks like it's somewhere around 13%. Can I

just ask you on your comments about running with very similar levels of capital within the ring fenced and the non-ring fenced [bank]; clearly from a bottom-up capital stack approach, you're coming to a similar number. Does that take into account potential views of, say, the rating agencies when giving a credit rating to the non-ring fenced bank in terms of being able to fulfil the functions of a derivatives counterparty, that type of thing? Have you taken all of that into account when you made those comments?

I also have a second, follow-up question, please, on Non-Core revenue if that's okay. It's just really for clarity; going back to Fiona's question looking at the £196 million [Businesses income] in the first quarter. If I understand your guidance correctly, the full year [total Non-Core income] is still going to be around negative £800 million, suggesting the next three quarters will be negative £1 billion; is that correct, and is that a good proxy for the disposal losses that we're going to be expecting to see this year? Or perhaps even more than that, if that £196 million doesn't completely fall to zero, so there's still some underlying revenue being offset. Am I thinking about the guidance in the right way there please? Thanks.

Tushar Morzaria

Thanks, Tom. On the question on capital, you're right, we thought long and hard, obviously, about how we believe ratings agencies will look at the NRFB, we have a dialogue, as you can imagine, with the ratings agencies, but it's really their judgement and for them to consider. There are a number of measures as we think through that we think are relevant for ratings agencies; capital is one of them, but the type of balance sheet that you're running, the type of assets on the balance sheet that you're running, the amount of leverage, the way it's funded – you're probably as familiar with some of these models as I am – the amount of subordination in those entities. All of that in consideration, we get to, we think, that both the operating banks will have similar CET1 levels, not identical, but pretty similar. The other thing that is a little bit harder to factor in and may involve our thinking on as we go through time, will be how stress testing is applied to each of the entities as well, and that will probably be something that will evolve in the fullness of time, and I'm thinking more as a prudential matter rather than as a ratings agency matter there.

In terms of Non-Core income guidance, yes, I would still say that all-in over the course of the year the guidance that I gave at year-end still holds. And that should, in many ways, cover everything; whatever income we generate from the businesses that are operating under our ownership, cost of exits, both derivatives and businesses, and related. So I think that's still a reasonable number. We'll obviously try and do everything we can to improve on that but I think that's probably the right guidance for you guys at the moment.

I think we'll wind the call up there. Why don't I hand back over to Jes, who I think will make some final

comments and then we'll close the call.

Jes Staley

Just very quickly, I just wanted to, on the call, express how extremely pleased we are with the energy and the values that the employees of Barclays showed in the first quarter. To achieve our roughly double-digit return on tangible equity in our Core business is a very important goal for Barclays, at the same time managing down our Non-Core business at the pace that you saw in the first quarter. And then with all of that, reorganising the bank along the two business units of Barclays UK and Barclays Corporate & International, the work that's gone on to restate all of our financial statements accordingly with that, to set the bank up to be positioned to comply with all the regulatory requirements that we're getting from the UK and from the US, changing our executive committee with some very strong hires from outside. I think we've accomplished a lot in the first quarter and I just want to express my gratification and thanks to the employees of this bank.

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