

Barclays PLC Q1 2016 Results**5 May 2016****Sell-side analyst breakfast transcript (amended in places to improve readability)****Tushar Morzaria, Group Finance Director**

In terms of messages from me, I'd say there's probably four things I'd want to remind folks of, and this is really all centred around what I think are our key objectives for management here at Barclays over the course of this year. And if we do well in these objectives, I think, this year could be quite a significant year in Barclays' turnaround.

First and foremost, and probably the most important thing we can do this year is accelerate the wind-down of our Non-Core unit, which is a really big priority for us. We are absolutely targeting to close Non-Core. It should be very small by the time we do that and are intending to close it before the end of 2017. We feel good about our RWA objectives for 2017, and feel we should be able to get there. It's still obviously quite a way to go, but we have some reasonable lines of visibility around that.

This year, of course, is a big year, though, in terms of that restructuring, so it's a little bit of a messy year in terms of the numbers going through Non-Core. So, again, we'll try and be as helpful as we can.

Just to remind people of the guidance that we've got out there, and none of this really needs to change; we will have negative income in Non-Core for this year. We did say to take [2015] fourth quarter's negative revenues, a little over £200 million, and annualise that, and you'll get to a reasonable estimate. And we still feel pretty good with that. That will cover, if you like, everything apart from one item I'll come back to, but it will cover things like [...] cost of exiting derivatives, restructuring parts of, say, the ESHLA portfolio, as well as any income we're receiving in from businesses while they're still under our ownership. So it's the whole thing – no below the line, above the line items – it's everything included in there.

The one item that'll be a variable to that will be the fair value gain or loss on the ESHLA portfolio itself. And the reason why I'm carving that out is we just don't know what that number will be. It can be quite volatile, as you've seen in recent times. So it could snap back, it could get more negative, it could get

very positive. And I think the Brexit vote actually makes it a little bit harder to really predict that as well. You could get persuasive arguments with swap spreads tightening or widening, depending on what the outcome is.

As a management matter we tend to look through that though. It's not something we're trying to monetise on the upside or the downside, so it's something we tend to look through, and doesn't have a very significant capital effect, either. But anyway, that's some top line guidance.

In terms of cost, you'll recall that, as part of the increase in the perimeter, we increased our cost base in Non-Core by £600 million this year with an additional £400 million restructuring charge, so around £1 billion of cost increase going through the Non-Core unit this year. We still feel pretty confident that we'll have extracted most of that over the course of this year, so that when you look at 2017, we would expect both income to be dimensionally smaller than anything we experience this year, and cost to be substantially smaller than anything we experience this year as well.

So the first quarter of 2017 is going to be an important quarter for us in that regard as the proof point, as a lot of what we've done this year is translating itself into a financial improvement in the Non-Core. And that should set us up nicely to see how we can close or fold the Non-Core unit back in as we go through 2017.

There's been a lot of activity in Non-Core. And just to remind you of some of the things that have been announced that sometimes you can lose sight of; we've announced the sale of our [Asian] Wealth business, that will close this year, probably in the fourth quarter would be my guess. We've announced – it's slightly unusual for this one – we've announced exclusive negotiations with AnaCap for the sale of our French retail business. Slightly unusual because in France a business sale is subject to works council approval, as well as the usual regulatory approval, so the way the French market works, you don't get a binding offer as you would in a normal business sale until the works council approves. So announcements tend to say what we've done, which is that we're in exclusive negotiations with a buyer with lots of agreed terms but it is subject to works council approval. And no one can buy a business without the works council approving it, and that's why we worded it accordingly. So we'll see. We'd expect the works council to be constructive, but it is something we will need to get approval for.

We've announced the sale of our Southern European Cards business. That'll close before the end of the year. We closed Portugal [retail and insurance businesses]. We've announced the sale of our Index business to Bloomberg. That'll probably close, early Q3 is a reasonable expectation around that. We'll keep you updated as we go through the quarter. We've announced the sale of our Italian retail businesses. That'll close over this year as well.

So there's a lot of activity that's going through the books and that all gives us quite good visibility that these are quite tangible things, because as we tick them off the list we know what the cost effect and the income effect and the capital effect is. So we can build a picture of confidence as we get into 2017.

So that's objective number one, and probably our single most [important] objective, to get on with winding down Non-Core and get to the finish line there.

Objective number two is keep the Core business obviously in double digits. Our strategy here is quite simply to preserve and grow earnings per share generated out of the Core business, while at the meantime substantially reducing the negative earnings per share in Non-Core, and to have both of those levers working simultaneously.

So the Core business earning double digits on its allocated capital is an important measure for us in every quarter, that I've mentioned ever since I've been here, and again I'm encouraged that on a higher capital base that we're getting into that double digit return in our Core business.

It's actually important for us. We have a ring-fenced virtual bank, if you like, Barclays UK. That will be the ring-fenced bank once it goes through the court part seven process. That's obviously a very high returning business before any conduct charges. But it's also important for us that Barclays Corporate & International, the non ring-fenced bank – the virtual non-ring-fenced bank at the moment, but will be the non-ring-fenced entity – is also able to deliver a double-digit return, and we're encouraged that we're able to get there, or thereabouts, in Q1.

Within Barclays Corporate & International, of course, you've got a very high returning international consumer payments orientated business, with north of 20% returns from very low levels of capital. And then we have our Corporate & Investment Bank, which obviously has a much lower return, and that's how you get the blended average.

I think for the Corporate & Investment Bank, our objective there is, we feel quite encouraged by the performance in the top line. It's a relative measure. Revenues were down, so it's not something to get too thrilled about, but as a relative performance we felt good with market share and how we went through the quarter, but really it's cost flexibility and cost control that we're really, really focused on.

There are some limited actions that we can do, obviously, around variable compensation. Because we do defer all our variable compensation it makes the accounting harder for that. We have some ideas around that and I will keep you posted if there are things that we can do to allow that flexibility to come through in the year of the compensation award, rather than the point at which it vests.

But there are other levers, even outside compensation, in the Corporate & Investment Bank that we'll look at in terms of cost management. The integration of the Corporate & Investment Bank is something that I don't think has really happened at Barclays. That gives us quite a lot of opportunities, both around coverage as well as the ongoing infrastructure improvements that we have around the CIB.

So objective number two; Core business staying in double digits. Double-clicking into what that really gets into is to be very, very tough on cost flexibility within the CIB as an objective for ourselves, and to make that work in our favour as best as we can. And again, we feel pretty good with some of the plans we have lined up there.

Objective number three; costs. We have a [Core] cost target out there of £12.8 billion [for 2016]. We feel very good about that. Obviously in a more challenging top line environment we're looking for ways to do everything we can in that space that's structural and permanent and have some ideas around that, but that £12.8 billion number, we have quite a high degree of confidence we should hit that.

Over time, of course, that needs to translate into a 60%, or below 60%, cost-income ratio for the Group. And I think that'll become more visible as Non-Core folds back into Core, and you can see the Group reconstructed. The Core itself is not that far off 60% in and of itself, but of course, if you add Non-Core in, it's not even close at the moment, so there's a bit of work to do there.

Then, finally; capital. We're probably in a very different place regarding capital, and certainly, in the time that I've been here, up until now, capital's been something that we've always set ourselves the objective of steady progression, every quarter, trying to nudge up a little bit. And we've been reasonably successful in doing that.

I think we're at a point now where we, again, will have quite good visibility of where more capital will come from, and therefore I think you'll see us take a much more measured approach – you won't necessarily see us go up quarter-by-quarter. And you saw that in the first quarter where we went back ten basis points, and that was something that we could have seen at year end, as we guided to it.

You'll see a possibly more moderate pace of capital accretion as we balance looking to increase earnings per share generation, particularly in the Core. So there are ideas we have around that, and we'll use our capital wisely so that we get to our capital target in good time, but don't necessarily need to zoom up there super-fast.

The final thing I'd say on capital; capital allocation is an important thing for us and we probably didn't do ourselves too many favours by putting a slide very far back into our presentation that we probably should have spoken more about last week, and that's the amount of risk weighted assets we have

against market risk, counterparty credit risk, traditional credit risk etc., and it's something that Jes and I are very focused on.

And you look at market risk and counterparty credit risk, which is essentially trading floor type risk, and you get to a little bit below 20% for Group risk weighted assets at the moment. It's about £69 billion I think, in aggregate, and that's a number we're very focused on. You would not expect to see us grow that number significantly. You'd expect to see us redeploy free capital capacity coming out of Non-Core, into more traditional forms of credit risk. That's obviously fuelling our very high returning businesses at the moment, which is our traditional bank in the UK, our international cards and payments businesses, etc., rather than fuelling growth in our Corporate & Investment Bank. Sorry, we do like the Corporate business quite a lot and would like to see corporate assets put to work where we can.

That's another thing I'd just leave you with; that's capital allocation or risk weighted assets allocation, something that we pay a lot of attention to as we go through the quarter.

So, just to really recap, and then I'll get into questions. It's really accelerating the rundown of Non-Core, making sure that we preserve and grow the earnings in Core, cost targets - to at least meet them - and to set ourselves up nicely to get to our 60% Group cost efficiency ratio, and then moderate capital progression, but balancing, actually, the need to deploy capital productively to generate earnings and not just looking to grow it every single quarter, given we have the visibility we have on capital allocation.

Tom Rayner, Exane BNP Paribas

Can I just ask you, Tushar, you mentioned CIB and the integration between the Corporate and the Investment Banking side; as you try and do that, are there any cultural issues that you might be concerned about, particularly with the focus on cost take out and the different types of cost within those two businesses? And the double-digit return, I'm assuming that that is also a focus for CIB alone, and not just a focus for the broader divisions, so it's not payments offsetting a lower return in CIB?

Tushar Morzaria

So, on your second question, absolutely. Every business needs to wash its face on its own return, and we're not going to be happy until that's the case. With these things, I guess there is a cyclicity. There'll be some times where businesses probably are above the mean and below the mean, and we're probably seeing a little bit of that at the moment, but absolutely, through a cycle they absolutely need to wash their face and generate an appropriate return on their own cost of capital.

In terms of the cultural differences, yes, it's something we are quite attuned to, and in that sense, Jes, in particular, has quite a lot of experience in this. When he was running the Investment Bank at JP Morgan,

one of the big things that actually happened under his leadership was the creation of the Corporate and Investment Bank there, and so the things we've got to get right, particularly around the coverage model, is to ensure that you've got the right types of people covering the right types of clients, and in many ways you almost want a much more heavier corporate led coverage force than an investment banking led coverage force. And if that works very well then the investment banking business gets a lot of very straightforward referred business through the Corporate Bank coverage force, because they'll cover so many clients that the Investment Bank just wouldn't necessarily spend any time with. But we should get, to the extent there's any activity, that our Corporate Bank throws opportunities to the Investment Bank. It should be a direct result, so we need to get that right.

It should free up, in some ways, our Investment Bank coverage force to focus on those clients that are much more strategic type dialogues, which happen for probably a smaller subset of clients.

Those cultural things are important. But it runs across even the infrastructure as well, and one of the things we'd be very tuned into is that there's no comp inflation, if you like, even when you get into the more back office type functions, that things don't go up to the highest common denominator, but actually make sure that we stay in control of that, and, if anything, deflate down to the lowest common denominator. And again, we adjusted this in the past. We were quite successful in doing that, so I think that's one thing that we are very tuned into.

The other thing is, of course, the Corporate Bank that we have is going to cover a whole bunch of stuff that the Investment Bank won't ever be that interested in, nor should they be. The small, engineering company in Birmingham, for example, will probably never do any investment banking business, but they're a very profitable corporate banking client and will remain so, and we need to make sure that we get the franchise covered properly. And I think that goes back to our coverage force, and which bankers we point to which sectors; which geographies. So we are very tuned into that and we hopefully do a very good job on that.

Shailesh Raikundia, Haitong

Just to come back to a question on costs, actually, Core costs; your £12.8 billion target. I'm just looking at your [quarterly] run rate [to full year], obviously in the first quarter it's around £13 billion. Then you've got obviously the bank levy to come in, so it is still quite a way off in terms of getting to the £12.8 billion target. I'm just wondering where exactly, in which divisions, are we likely to see costs coming down? Especially focusing on the IB, the year-on-year costs were down only £40 million. Also, maybe you can flesh out where the SRP costs are; out of the £1 billion what have you taken so far?

Tushar Morzaria

So in terms of divisions, you should see cost come down in all divisions apart from one, and that'll be in

the international cards and payments business. And there you'll see costs actually go up. It's obviously doing very well, that business, at the moment, and growing nicely. We announced just before the first quarter results the acquisition of the JetBlue Card portfolio in the US. So, when you do that, you create a call centre, you create people that service it, and it's quite additive. It's extremely high returning, so these are good costs for us and very profitable. So that division will grow its cost base.

I think in the UK bank you'll see cost, again, continue to trend down. You'll see positive operating jaws, but really driven as much by cost reduction as any top line expansion. Then CIB is where most of the action you'll expect to be. We're not expecting any top line improvements there, we may get some but it's certainly not in any planning assumptions that we're making, so a lot of focus on cost there.

We probably could have had this conversation for the last two or even three years - the cost shape at Barclays - you have tended to see a fairly dramatic reduction as you keep going through the year. So when you take Q1 and annualise it, probably if you go back in previous years, you'd struggle to see how you'd get to the full year number. But it tends to be in the second half that you see the bulk of the actions kick in.

So, for example, take the Corporate & Investment Bank. In January we exited large parts of the footprint that we have [announced], particularly in Asia and in Continental Europe. In Continental Europe what we didn't do is move other people to Non-Core and then fire them, if you like, because we weren't moving real estate or whole businesses or whole offices. We were just reducing our banker footprint. So all the severance costs, all the redundancy payments and restructuring charges were paid for by the Corporate & Investment Bank, so they had a relatively large restructuring charge. It will be enclosed within our £12.8 billion [target], so it will be all in, but that's why you didn't see a large drop off in CIB costs - there's a little bit of FX headwind as well, but not much outside that other than restructuring. And that will obviously not be recurring stuff as we go later on in the year.

In terms of SRP, the guidance that we gave, about £1 billion over the three years is about right. We guided to about £400 million this year and another £400 million, or the balance really, in 2017. There won't be too much going on in 2018 if the project's gone according to plan, which we expect it to and we're on track for that. If we need to revise guidance in any material way, we will do, but we'd only probably aim to revise it down rather than up. But at the moment that's still a good number, and again that's all inside our £12.8 billion [target], so we're absorbing all of that.

Over time, obviously, those construction costs will fall away, so when I'm looking at cost-income ratios at a Group level, those are benefits you start seeing kicking in after 2017, which again gives us confidence that we'll continue to see cost efficiency improvements as we go two, three, four years out.

James Invine, Societe Generale

Can you talk a little bit more about costs in what was the Investment Bank? Last year you had a comp ratio of 45%. I was just wondering if Antony's target of 35% still holds and if you still think it's possible in this revenue environment? And then on the non-comp side, how easy is it to benchmark yourself against peers, so whether you think you're much more efficient or less efficient on the non-comp costs?

Tushar Morzaria

Yes, I think 35% comp to revenue, just a narrow IB excluding the corporate business, I think it will be quite a difficult thing for us to achieve unless revenues improve dramatically, which again wouldn't be my expectation. But I guess you never know. I think that will be a difficult thing to do.

I think the nature of the business is becoming less and less, if you like, infrastructure/balance sheet heavy and more IP heavy, and therefore, if anything, comp to revenue will probably have upward pressure rather than downward pressure. That's not to say that returns shouldn't improve and therefore we should be running at an appropriate margin. The thing that Antony always gave out, actually, was – I think it was less so for the IB, it was more for the Group – for the Group I think we're at about 35%. That's probably not a hugely meaningful number, unfortunately, in the current construct because it's skewed by divisions so much, but I think that's what he was talking about.

In terms of non-comp and our efficiencies, you can't really look at it on a quarterly basis. So if you look at our cost-income ratio – again, you won't be able to see our IB in the way you used to, but to probably make a reasonable estimate you wouldn't be far off – it actually looks okay relative to peers for one quarter. But very difficult to conclude anything in a quarter because of many things, variable comp can change so much in one period to another.

On a trend basis I do think there are some more efficiencies we should be doing. I do think there's areas we can be more productive, and I've felt that way since we began this restructuring. So we still have a lot of confidence around our infrastructure type work. There are some efficiencies even in our front office footprint – you saw us do more of that in January. I'm not sure there's a whole lot of that left. We would love to have more revenue per producer, but don't think our producer footprint's necessarily that skewed away now. I think it's more our infrastructure costs where there is more that we can do, and that's really on the non-comp side.

James Invine

So it's not the non-comp side that's going to be driving [cost reductions]?

Tushar Morzaria

Well, so comp will follow performance. So if performance is down, comp will come down at least

commensurately, probably more as you've seen other people do as a relative measure. Non-comp will be a continuum though. We must drive non-comp efficiencies as a continuum. It's probably a never ending journey.

I think of that as like all mature industries, the first thing you do at the beginning of the year is think, how do I get more efficient, and that's typical of thin margin, mature industries and investment banking. Banking in general is probably feeling like that now, so it's the first thing you do when you come into work every morning, and comp will just vary. We'd like to bring it down structurally but it will vary with performance, unlike non-comp, which should just continually come down.

Ed Firth, Macquarie

Just two questions. One was really just to give you another bite of the cherry, because you were asked on the call about this extraordinary credit performance of plus 46% revenue, and I guess the two questions there are; one, is this saying something about the appetite for risk in the business and the positions you're putting on, and secondly, should we see the current level as the base and that the historic level was depressed, or is the current level [affected by] something special going on in Q1 which drove that performance? And I guess it's given that it's just so completely out of line with anything we've seen from any other investment bank.

And then, to get my questions out together, completely unrelated – Basel IV. I guess we all hung on to what Carney said last year, but every time I go on the Basel website there seems to be another announcement which seems to be pretty clear there is a Basel IV. So your views as to where we are on that would be great.

Tushar Morzaria

Yes, on credit, the one thing that the business does so much less of than perhaps it used to do, is be very exposed to large moves in inventory pricing - and that can work for you and against you. It certainly worked for us in the first quarter; could work against us in subsequent quarters. So if there's a big re-pricing and a big rally in credit, we don't have a large distressed book, we don't own large warehouses of CMBS assets so we wouldn't profit from that. Likewise, when there's a big re-pricing, like say in February, probably credit widened quite substantially, it was very unpainful for us relative, I imagine, to others who are probably carrying more inventory. And the flipside could happen if next week we get a big rally in credit, we wouldn't see the upside of that either.

So we're probably a bit more volume-sensitive than pricing-sensitive, and volume worked in our favour because our debt capital markets business actually had a very good quarter. It's a core business of ours, it's always been a strong part of Barclays, both in the US and outside of the US. And we picked up good market share in profitable parts of that area, particularly in things like leverage finance, where we're top

three by volumes, where we did some good activities with sponsors. That and regular-way debt capital market issuance allows us to trade those bonds, make markets in those bonds and provide liquidity, without running very significant overnight inventory size.

Looking back at the past, I'd just say it's probably quite a different business now. The guy we've got running it has probably been re-engineering that business for the best part of a year now and we're beginning to see the fruits of some of the plans that we had in place.

We're very pleased with the performance in the first quarter. I'm not going to comment on whether second quarter, third quarter, fourth quarter will feel better or worse. We'll see as market conditions will be the driver of that as much as anything, but it is quite a different business to the ones that certainly Barclays had in the old way. Perhaps we were more diversified by product set. For example, we're not that big in emerging markets at the moment. If there's a big rally in emerging markets, that's not necessarily something you would expect us to capture. Maybe other banks do that. So it's probably a slightly simpler business, much more flow credit, and much more linked to our primary calendar. So in quarters like the first quarter, that worked well for us.

Ed Firth

So say, it's primarily the absence of a loss, if you like, rather than a gain?

Tushar Morzaria

Well, revenues were up year on year, and as there is a step up in revenue I think you're seeing the benefits of us able to capture flow much more productively than we've been able to do in the past. It wasn't that we had big losses this time last year or anything like that.

In terms of Basel IV, you read the consultations that I read as well, whether it's operational risk, credit risk or what have you. I genuinely think there's a bit of a tussle going on where there are mixed views of policy makers. Some policy makers do want to still increase capital within the sector, and other policy makers are probably more comfortable with what's in train at the moment and don't feel it needs to be added to.

Basel has different views on these, and I think we're seeing a little bit of that tussle play through. I do think what that might mean is that some things just get delayed if it's difficult to get agreement on, given policy makers' slightly varying objectives. So take operational risk; consultations need to be final, the rules need to be finalised, that means they'll then be adopted in the CRR. It may take two years as a legislative process, it's quite typical, and that will be CRR2, might even be longer, and then it needs to be one year for implementation by national regulators. This could easily be 2019, 2020 type territory. So I am sensing that there's a potential pushing out a little bit of the finalisation of these things as policy

makers perhaps are finding it difficult to align themselves.

But we watch this space. We're in close contact with the Bank of England, so we know what their objectives are in all this. And they're just one voice at the table working with the rest of the Basel committee too, to get to what they think is the right answer, as are the US and Europeans and other jurisdictions. So we'll see how that plays out, but I sense that, if anything, it might just push out some of these things a bit longer than perhaps we would like. It's probably better to wait for the right answer than hurry up and get the wrong answer.

Chirantan Barua, Bernstein

Tushar, I've got a couple to ask, one on the repo on the securitised lending book. [You brought it] down very sharply, it's round about £75-80 billion, hovering around that number right now. Aligned with your client [focus], you said that you see the IB really focused on clients, basically we'd love to get some views around, is this a level that you're going to hold at? What does it mean for your prime brokerage business? It's an important business in the US franchise obviously.

Second is the transaction bank; £1.7 billion in revenues, I don't know too much about the business. So it would be great to just give a sense of the big income lines – it's a big business – so how much of that is actually in the UK? Is it predominantly a UK business? Does it tie back to this whole CIB thing, investment banking and corporate banking together? And I assume that the Investment Bank is a US business whereas the Corporate Bank is a UK business, so where are the synergies?

Tushar Morzaria

So, secured financing, it is an important part of our business. We are probably outsized on the Fixed Income side. We've reduced that very dramatically, in fact. So I think in our Core business, our secured financing in Fixed Income feels about right. It's a lot smaller than it ever was two years back.

Equity prime is a really interesting business for us. We've seen many of our competitors grow that business quite sharply, and it is a good business, but does create leverage pressures. So we're quite interested in growing that business where we can, but we've got to pay a lot of attention to the amount of leverage that we're running. And so I don't think you'd expect us to see significant growth there. I think there are some more technical things that we can do in how we manage that business that will allow us to, if you like, grow market share in that business without growing leverage. That's something that we're working on behind the scenes.

It's a business that we like because it's quite a stable source of revenues; doesn't consume much risk weighted assets as well, of course, and sits nicely alongside trading business as well as our primary business in many ways as well. So we do like that business and we'll look for ways for very deliberate

but slow growth opportunities where we can find them. I think you'll see us do more technical improvements, rather than see the balance sheet actually improve.

Chirantan Barua

Can you give a ballpark indication of the revenues you derive from that business?

Tushar Morzaria

I'm not going to quote that. It's not a dominant part of our business. It's important, you'd notice if it wasn't there, for sure. It's a good stabiliser for revenues but it's not the overwhelming size of our business. It's probably relatively, I imagine, bigger at other places, and that's something that might suit their balance a bit more than ours. We're probably a little bit more underweight in prime than we'd like, relative to the rest of our Equities business.

Chirantan Barua

Is that purely because of a leverage constraint?

Tushar Morzaria

Well, leverage is one constraint, definitely, as well as these other technical improvements we can make that will allow us to do more business.

The transaction bank, you're right, it's predominantly a UK bank. It's not a US corporate bank in the traditional sense. So we've got virtually nothing to offer a US corporate who wants to be transaction banked in domestic US business. Our US Corporate bank is really sourcing inbound business into the UK. So clients of ours in the UK – McDonald's is a good example – we wouldn't bank them in the US but we do bank them in the UK. It sits really nicely alongside our payments business. We do most of the merchant acquiring for McDonald's, so it's a nice ecosystem that you build around that.

So where that is very helpful, for example, is where you've got those issuers that are issuing in the UK, or a lot of these corporations actually subsidiarise themselves, unlike what banks have done. We tend to branch everywhere but real world companies tend to subsidiarise themselves everywhere. So quite often treasurer type decisions can be quite localised, and that sits very nicely alongside our IB.

Of course, UK multinationals is a home market for us, so pick your favourite UK multinational; if they ever wanted to do something overseas, not as a transaction banking matter necessarily but certainly as an investment banking matter, you'd have thought we would have good strategic dialogue at the right table in the right parts of those companies, and particularly when we've banked them for a long time.

A good example may be London Stock Exchange. We were sole financial advisor on their merger with

Deutsche Börse, someone that through the corporate broking side and transaction banking side we've had a long term relationship with, and that translated into a really big fee event for us over the course of this year.

So I would say there's lots of synergies to be had, but I wouldn't want to mislead you to say this is a big US corporate base. It is UK, and therefore there's a lot of clients in that business that will never, ever do any investment banking, and nor should they. Our cut-off point is £6.5 million of turnover – that's very small – all the way up to billions and billions and billions. So you don't really get into folks that are going to be issuing bonds or doing equity or strategic M&A until you're much higher up the turnover spectrum.

Martin Leitgeb, Goldman Sachs

Three questions, if I may. Firstly, on the cost trajectory from 2017 onward, historically you were one of the few banks giving us absolute guidance. I was trying to get a better sense on how we should think of that cost base – most importantly, obviously, within the IB, equally within retail or the Core as a whole – going from 2016 onwards. And in particular maybe if you could call out what would be the run rate of the IB if we adjust for the disposals you obviously had and the exits in the first quarter. If you could give us a little bit more steer in how the trajectory would evolve from 2016 onwards.

The second question is just a follow-up on capital, and I know we have been discussing this over and over in different ways, but is your assumption that the [end-state] capital [requirement] is coming to an end and you're now comfortable at 13%? Or which one would you still see as major risks down the road; is it the FBO in the US, is it the ring-fencing, or countercyclical or so forth?

And finally, the third one on Barclays Africa. We saw obviously the disposal of the first tranche overnight, and I was just wondering how should we think of that going forward? With a 90-day lockup, would you consider one of the optionalities would be that every 90 days you could place a similar stake? If a strategic buyer were to come up, would that be one of the considerations you would look for? Thank you.

Tushar Morzaria

Thanks, Martin. So in terms of cost guidance for 2017, in some ways we felt it was very helpful to give absolute cost guidance for the last three years now because there was such a big repositioning going on in the company. So cost-income ratios and things like that were very hard to make sense of when you've got a very significant Non-Core, revenues being repositioned in your Core etc.. So we thought absolute cost targets [would be more appropriate], and it was a good management discipline for us as well, and we've obviously kept that into this year.

I think prospectively you'll see us probably do less of that because we think it's important for us to become a 'normal company', if banks ever do consider themselves normal these days. And therefore the efficiency ratio is, I think, more meaningful rather than just tying yourself to an absolute cost target, particularly over a longer timeframe. But we'll see. If that's still appropriate and we still feel it's helpful to investors to give an absolute number, then we'll do that. So I certainly wouldn't rule it out, but our inclination is to try and look at ourselves much more through traditional efficiency measures rather than just absolute cost targets, and try and manage the whole company rather than just one lever in there, but we'll see.

I think in the round though, having said that, generally we should expect costs to come down regardless. We're not very optimistic on big improvements in macro environments from a top line perspective. So our cost efficiency metrics won't improve because we're expecting top line improvement. They will only improve because we're becoming more efficient through utilising less cost, and I think that's what you should expect to see in 2017 and probably beyond that even, in 2018. In my planning horizon, I can't see the year where I expect costs to go up.

Martin Leitgeb

Is that for Core in addition to the whole Group?

Tushar Morzaria

Yes, I think so. Non-Core, obviously, it's more short term; the costs will come down dramatically next year but Core, I think, you should expect to see [costs continue to come down as well]. In some ways – I've got to be careful how I say this – it would be a nice thing to increase costs in the Core in some ways because think of, for example, our international consumer cards business where we are increasing costs. It's really nice to be able to do that because we're investing, we're growing, we're generating good returns. There will be a point where we'd like to do that but, I think, in any sort of reasonable planning horizon, it's hard to see that happening so we'll be driving out more efficiencies. I suspect you'll see that from the sector generally and we'll be very, very focused on it.

You'll see structural reform build costs leave, that will be a tailwind for us. Restructuring charges will fall away, that'll be a tailwind for us. There's a lot of things we've got in the hopper of just structural cost takeout; whether it's integrating our UK card business into a retail business, I talked a little bit about the Corporate Bank and Investment Bank, I talked a little bit about our coverage footprints, I talked a lot about our infrastructure, some of our digital channels. Those will continue to come through. I don't think that's going to stop anytime soon, so generally, as a trend, costs we'd expect to come down.

Martin Leitgeb

Just to follow up on costs, could you give an indication how big deferrals were and how big a drag

deferrals were within the CIB costs in the first quarter, which, obviously, compared to some of your peers, held up quite stable?

Tushar Morzaria

You could get that actually from page 37 of the 2015 Results Announcement. So we lay it out by Investment Bank and Group, Corporate has very, very little. And yes, you could just straight line it really. There's nothing seasonalised about it because it's actually driven by vesting, so we just straight line it and you assume that the vesting happens linearly rather than lumpily through the year. And there's very little variable in the Corporate piece relative to the IB, so the IB will give you what you need to see.

In terms of capital debate, your second question on where are we, it is a good question. I still, in my own mind, feel like somewhere around 13%, probably in today's money, feels about right. Whether it literally will be 13%, there's some RWA rules changes and Pillar 2A changes and bits and pieces like that but, I think, in today's money, in today's rule set, if you like, 13% probably feels about right.

There are some big things out there. I think operational risk is a fairly significant thing out there. The current consultation will probably have to change quite substantially, you can all do the numbers and probably many of you have done; that'll be quite inflationary otherwise. I think, FBO, in some ways, the rule set is, if anything, one of the few things where we actually know what the rule set is. There's some other crazy stuff going on in FBOs but it's not to do with capital. So we know the rules there. CCAR will be its own interesting exercise for us and I'm sure it is for many of you guys as well, but I don't think it will be rule set issues there, necessarily.

Countercyclical, I think we'll all expect to be at 1% at some point in a very realistic planning horizon. Whether it goes above 1%, again, I think of that, in some ways, as a high-quality problem if we really are overheating and making too much money and generating too many assets. A nice problem to have, but I don't see that happening any time soon. Fundamental review of the trading book, we're probably done with that now. Standardised credit risk weight is still out there; I think that's potentially in the same camp as operational risk. There may be some slowdown there. I'd hope there isn't but there may be some slowdown if policymakers can't quite align in what they want to achieve out of that.

Africa, for those of you that may not have caught the wires overnight, we sold down 12.2% of our stake through an accelerated book build overnight and that went out at a very healthily covered multiple times-covered book. I haven't seen how it's traded this morning, we'll see, but we've filled the book at a 6.5% discount. In terms of where we go from here, all options are available to us; strategic, further capital markets transactions, private placements, and are exploring all of them. So don't necessarily assume that after 90 days there's another block coming out, don't assume it's a strategic buyer, don't assume it's a private placement. It could be any one of those three.

Martin Leitgeb

The current AGM approval gives you a right to continue with these block trades if you would like to?

Tushar Morzaria

Yes. It wouldn't be uncommon for us to go for another circular too, if it's a strategic transaction you get approval through a general meeting. That's tried and tested M&A, we'd have no problem doing that. It's watch this space. Everything's available to us and we're having active dialogues on all three levels so we'll see. Again, we're not in really any rush. It's really trying to get this done at the most economic level. This morning, the other thing in our RNS that you may not have picked up, but again I won't extrapolate this or anything like that, but it generated ten basis points of capital as well. That's relatively small in the scheme of things. The big capital effect will be when we deconsolidate and that will be right at the back end of the transaction.

Peter Toeman, HSBC

The [2016 guidance of] £800 million of negative income in Non-Core - could you give us a breakdown how it might be composed, in terms of the novation of derivative contracts, disposals and ongoing funding cost of residual assets?

Tushar Morzaria

I won't break it down like that [...] but when you look at it in the aggregate, it's a reasonable place to be; maybe a bit worse than that or maybe a bit better than that. I guess we'll see. In terms of the thing I'll hopefully be a bit more hopeful on though, is the funding costs of derivatives.

We did call that out and just to remind folks, we called out approximately negative mid-£30 million is essentially the funding cost for the Non-Core derivatives portfolio - the funding drag in terms of the portfolio at the moment as it's sized. So if it's exactly the same size when it folds back into the Core, expect negative mid-£30 million a quarter going back in. We'd expect the derivatives portfolio to be smaller than that, so we'd expect the funding drag to be smaller.

And ESHLA funding drag is a similar quantum, again given today's size, ESHLA would have been a different size when you go back in time. So hopefully that gives you some parameters of what you'd expect to see flow back in today's size. But there's lots of puts and takes going on there [...] and when you add up all that, that sort of guidance probably holds. And then you add on ESHLA [fair value movements].

Manus Costello, Autonomous

Can I ask two questions about revenues, please. Just back on that credit point about your strong credit

trading performance, you didn't book any revenues in the Investment Bank related to the LME that you did during the year, did you?

Tushar Morzaria

No, so for the avoidance of doubt, there's no Treasury operations, no LME, no available-for-sale gains, nothing like that in our Investment Bank revenues. That will all be in Head Office.

Manus Costello

Good to know, thank you. On Barclays UK, you mentioned on the call that you thought that revenues were going to be flat during the year but you're obviously down in Q1 in each business line. I wondered where you see the pick-up coming through the course of the year and what initiatives you've got in because it feels a bit optimistic to see that improve.

Tushar Morzaria

It's a good question. There's two or three things going on in Barclays UK. So in our Personal Banking – current accounts, mortgages, savings, etc. – we have seen continued mortgage margin pressure, it's still a very competitive market and pricing is still very, very competitive. We've managed to offset most of that through liability re-pricing. We have some more we can do; we're in the process of re-pricing about 7.5 million instant access retail savings accounts. These are in the 40 basis points region at the moment and we're re-pricing them down to 25 basis points and we're about halfway through that. So that'll help as we go through the rest of this year. It depends where mortgage margins go from here. My guess is they feel like they're stabilising, at least for the bits that we're seeing, but that may not last. It is pretty competitive. We've seen some of the bigger banks much more branching into broker channels in a way they haven't done in the past and things like that. So it is a very competitive business. It's still a good business but it's much lower margins than there were this time last year. So, I think, as a consequence of that, if mortgage margins stabilise, you should see some pick-up on the liability side that will come through for the rest of the year.

On the card business, interchange fees, we've seen the full effect of the EU interchange caps so that will rebase fee income. Now, the card business is growing. It's modest growth; you'd expect it, given the size of market share that we've got. I think that growth will offset some of that, if you like, downward pressure for the rebasing of interchange fees, and then 2017 back to normal with the full effect of that having taken place.

And then, actually, the other business that's doing okay, Wealth, Entrepreneurs & Business Banking; obviously, the equity market volatility in the first quarter meant we just earned less management fees and so on in our wealth business. Business banking, actually, is holding up pretty well. That's quite a liability-heavy business so there are opportunities for us to do well there. So that's probably a slightly

harder one to call because it's a little bit more driven by where asset levels are and so performance management fees will be driven by that.

But, I think, outside of that, our card and our personal banking businesses - roughly flat is probably the right thing to think about, and good cost control, driving costs down is probably the shape of that business for this year.

Fiona Swaffield, RBC

I have two questions. One was, you were talking earlier about RWA or capital allocation and you mentioned market risk, £69 billion or something. But when I look at that slide, are you trying to say that when we look at the Investment Bank or CIB, we should expect market risk to go down – there's not a very big number there – and that the RWAs will stay around £200 billion but you'll see some change?

Tushar Morzaria

So I think, on that slide it's about £34, 35 billion from memory?

Fiona Swaffield

Yes, I'm just looking, I hadn't quite realised that you give, within CIB, market risk of £23 billion.

Tushar Morzaria

Yes, market risk, a little bit gets taken in Head Office for our Treasury but it's 90%+ in the IB [businesses within Core and Non-Core]. It'll grow with things like rules changes that come in, but as a quantum of RWAs in the company, it's about 9% or 10% if I've got my maths right. That's probably about the level I expect it to hover around. We'd like to see whatever capital capacity that we have released out of Non-Core – you won't see us growing our market risk or counterparty credit risk risk-weighted assets; its one and the same thing in some ways, market risk and counterparty credit risk, driven by the same activities in many, many guises – you'll see us grow our traditional credit risk weighted assets. That's really the point I wanted to make, so whether that's corporate lending, consumer lending, card business, payments, wherever we see good opportunities.

Fiona Swaffield

Then the other question is on Consumer Cards and Payments, because in the past, I remember you saying at these breakfasts that the ROE of Barclaycard would be different to this, but the ROE is pretty high and the business keeps on motoring, it keeps on improving. Should we just expect growth rates to continue like this?

Tushar Morzaria

No, don't.

Fiona Swaffield

Can you just talk a bit more about how you see this business going forward?

Tushar Morzaria

Yes, so there's no way we can continue this level of growth. In many ways, you're seeing the full benefits of work that was done in 2012, 2013, and 2014 coming through now. There's the full seasoning, as the US portfolio is coming through. So what tends to happen is that we won't be able to restock the J curves with anything like the pace that we were able to stock them up in 2012, 2013, 2014. So when you're stocking up, you go one step backwards and then next year you go two steps forward. So you're seeing the two steps forward now. We're not putting on as many new card portfolios, so you've seen us grow like this and you'll now see us level off.

Now, the returns will still stay reasonably high but you won't see that extreme growth in assets or, indeed, revenues. Therefore, over time, in a perfect world, what would happen is, you'd be restocking the J curve every single year. So you get this nice, smooth effect where you're reinvesting every single year so if something seasons, it's paying for next year's reinvestment and you keep on doing that. It's not always perfectly synchronous. What we're finding at the moment is it's quite hard for us to find new card portfolios that we like the pricing of. We talked about Jet Blue; that's one we do like but there's a lot that we've just passed on. So you'll see this thing; the gradient will still be up but it'll shallow out just as a result of just not adding new card portfolios at anything like the pace at which we were adding two or three years back. We could never keep on growing at this pace. That would be crazy.

Fiona Swaffield

You also included the growth rates of Barclaycard US and Germany in the slideware. Will you continue to disclose such detail going forward?

Tushar Morzaria

Yes, I think we will do, we'll try to. What we tried to do in the slideware was – I think it was feedback we got from many of you folks – rather than just putting narrative and numbers that you could have read in the table, was to tell you something about the drivers, some of the underlying trends? So that's our first attempt to do that. We'll definitely try and continue to do that. Whether it will be literally the same numbers, we'll try and make it relevant so if it's helpful to tell you what happened in the quarter, we'll try and do it that way but do send your feedback in. We'll try and be helpful where we can.

Robert Sage, Natixis

I was just wondering if I could ask a question about the flows of capital through the Group, and in particular as and when the African capital gets released, and to the extent there's any capital being

released from the Non-Core rundown as well. I see, at the moment, the capital from Africa seems to be in the Head Office so I assume it gets put there to begin with, and I was just wondering the extent to which, and the basis on which that would then get allocated out to the operating divisions? And really the point of asking is to just get a feel for how to be modelling divisional returns on equity over the next two or three years?

Tushar Morzaria

Yes, it's a good question. It's a little bit complicated to follow but we think it's helpful for us, at least, in terms of how we think about the company. Accounting for Africa is a little bit unusual in the sense that we put it on a single-lined item as a discontinued operation so it doesn't have its own segment, if you like. It sits outside of Core and Non-Core, just almost as a below-the-line-type number these days, but the risk weighted assets that it consumes in the Group, we've left allocated to Head Office in our Core.

The purpose of that is that it's capacity; we're at 11.3% capital ratio, that's not at our end state, we'll need to continue to grow capital. So this is, if you like, forward funding, when we release the capital out of Africa that it's already being allocated to the Core, so we can look at the Core business without that capital being productive today. So the full effect, if we were to deconsolidate today, what would the returns in the Core be? That helps us think about whether, when we're talking about double digits, are we really at double digits? I know we've heard back from some of you that you try and plug in 12% or 13% and say you're not really at double digits, and that's a fair point. I think that's a valid line of analysis and what we're trying to do is to try and pre-fund some of that.

In terms of how we allocate capital to the divisions, it's a little bit complicated behind the scenes but as a rough rule, we tend to use the Group capitalisation level at the moment, which is 11.5% we've used, and used that as a jumping-off point to allocate capital to the individual divisions. When that becomes 12%, 12.5%, 13%, we'll steadily move it up and you've seen us do that over last year and previously, so that's typically what we do.

So when I go back to the beginning of my opening remarks, preserving and growing the returns in the Core, it's really because there is more capital that's going to be coming into the Core, either through the Africa divestiture or indeed, the wind down of Non-Core. And, indeed, improving our capital ratios so we need to improve EPS levels in the Core to keep the returns up, and that's an objective for us and that's how we think about that.

Chris Manners, Morgan Stanley

I had a couple of questions, if I may. The first one was just on how many risk weighted assets you think the Group needs to run with on a two to three-year view. As we look at the Core at the moment, it's only got £270 billion of RWAs, obviously materially lower than Group once you take out Non-Core and

once you take out Africa.

CIB you don't want to grow as a share of the Group, so that probably doesn't grow very quickly. You've got slow growth in the UK, Consumer Cards & Payments isn't that big, so how should we think about how many RWAs the bank needs to run with? And could we actually end up with pre Basel IV, something like £280-290 billion of RWAs in a few years? Because obviously, that would give you a capital ratio that's quite a bit higher than you're guiding for, assuming you can make some profit. Maybe just a thought about the RWA trajectory over the next few years.

And the second question was on the impairment charges and Consumer Cards & Payments. It seems to be very benign at the moment, and as you talk about seasoning of portfolios, rising US interest rates, is there potential for risk that these charges go up? Or do you expect we could actually stay around similar levels? I mean, I saw that we actually had the impairment charge down 3%, year-on-year in the first quarter which is quite encouraging. But obviously, the Bank of England's getting nervous with their stress test about the US, so some thoughts on that.

Tushar Morzaria

On RWAs for the Group, I think at the right time we'll give you some better planning guidance, in particular as we get to the back end of Non-Core. It is a valid question. Your points are right in the sense that the areas which we want to grow risk weighted assets on are areas that you can grow them quickly.

So you talked about CIB, actually, we do want to grow CIB risk weighted assets, but in the C bit, not in the IB bit, so in the credit portfolio. So that's not going to go up in leaps and bounds, so for example, £10 billion a year or something like that, that's a way too excessive growth for a business, like that. But modest growth in the traditional real world corporate lending in the UK is something we'd love to do. Commercial returns are very good for us.

Chris Manners

I was going to say, that corporate business does seem to have quite a high risk weight density at the moment. And it seems to me that you should be able to actually maybe hold RWAs flat, but be able to grow balances through efficiency there. I thought that was something you might be trying to do, as well. Is that fair to say?

Tushar Morzaria

Yes. It's one of those other potential opportunities of bringing them together – and this is, again, a technical fact as we tend to, for technical reasons, have a much higher RWA density in the Corporate business than we do in the corporate lending portfolio in the Investment Bank, interestingly enough.

And there's an opportunity there for us to try and improve the corporate efficiency. Again, technical things, I won't go into it. There are opportunities there that we're looking at. Not so much data, actually, it's different stuff, but we'll see if we'll be able to do it.

But back to the question. Yes, Corporate, we do like it a lot and do want to grow it, but it's going to be modest growth. We've been in that business for decades, and you're seeing how big it is at the moment, so it will grow at a modest pace.

We like the card business a lot, but I think what we're very focused on is price discipline. So the big growth in the card portfolio are acquisitions. I think we'll see a slowdown, probably. There are lots of acquisitions that take place, you'd be surprised but they're very small in size so you never really hear about them, very, very small. And occasionally we do a big one, like JetBlue that we'll tell you about, otherwise it's lots of little things that go on. But it won't grow in the leaps and bounds that it has done. If it does, it would be great, but that is, again, not my expectation.

So I think the capital released from Non-Core and Africa, it'll be a combination of improving our capital ratios, growing our traditional banking business, and we'll try and give you guidance, probably close to 2017, because I think at that point what's left of Non-Core is where we could be most helpful. And then you could get a really good sense of what you think the capital ratio of the Group could really, potentially run at, and what we would do with that capital. But I think that's more of a conversation into next year. I think you'd want to see more visibility on Non-Core. But it's a fair point.

We talked about £400 billion [Group RWAs] a while back. I mean, it's highly unlikely it would be at £400 billion. I can't see any scenario where we get there now. It would be much nearer £300 billion. So capital ratios, we'll come to that when we give you a bit more guidance on RWA levels.

Impairment is quite benign, and we've always said to ourselves it's hard to see it getting any better, and it gets a little bit better. So at some point we'll be right and it will start getting worse. You've seen that in the commodity complex, but in the consumer side and more traditional forms of credit side, it really is quite benign.

On the US card portfolio, or in the Consumer, Cards and Payments segment, it's slightly flattered because there was a top-up – you never saw in the old Barclaycard segment – we had a slight top-up in the US for a one-time effect this time last year; first quarter last year. It was offset by continued benign impairment in the UK side of the business, so it evened itself out and there wasn't much to talk about. But when you split the business in half you can see that one top-up exaggerates the 'benignness', if you like, of the US business on a year-on-year comparison. So revenues going up and impairments going down is an unlikely trend to continue. It's a one-time thing.

But generally, having said that, it is very benign, we're not seeing any real signs of stress. These kinds of businesses, you can't see years out. So you can only see near term. But unemployment levels, spend levels, leverage levels, it feels okay at the moment, but we're keeping a very watchful brief on that.

We've called the bottom too early, too soon, but we'll see. At some point we'll be all right, but it does feel very good at the moment. Both in the UK, as well, for that matter.

Andrew Coombs, Citigroup

Firstly, a request, if I may. Under the new divisional disclosure, would it be possible to split out net interest income between Personal, Barclaycard and Wealth within the UK operations, and between Consumer, Cards & Payments and Corporate and IB within Corporate & International? It would be very useful.

Tushar Morzaria

We'll take that onboard. It's something that we have been thinking about behind the scenes. It's been a little bit of a rush whilst doing the first quarter. We'll take that onboard and have a think about that. That's a fair question.

Andrew Coombs

Thank you. And then a question on the Non-Core, the £800 million negative revenue guidance. If you look at first quarter 2016, you strip out the ESHLA loss, you actually get £130 million positive [income], which is partly because it's taking longer to run-off the Non-Core assets. But nonetheless, you had £130 million positive.

You said the risk index solution business would be a £480 million gain, if I recall. So, effectively, over Q2 to Q4, you're guiding to underlying negative revenue of £1.4 billion? You've just said the funding drag from derivatives and ESHLA is £60-70 million a quarter. So coming back to Peter's question, there seems to be a big gap there. You must be seeing some very large disposal losses in some of the remaining entities.

Tushar Morzaria

Potentially, yes, I think so [...]. Obviously, exiting derivatives, we gave ourselves a budget; we'll try and spend within that budget. Restructuring some of the ESHLA portfolio, we gave ourselves a budget. We'll try and spend within the budget.

One of the things we do internally that we don't publish and I'm not sure we ever would publish but for something like Non-Core, the key metric that we use is capital release. We don't manage to, if you like,

headline earnings loss, or even an RWA limit. We look at capital release.

So you sometimes can get some very large earnings losses that are very capital accretive. And sometimes, you could spend a lot of time exiting derivatives, but the RWA release associated with them is a net capital increase to the Group. And that's why sometimes, it can look a bit peculiar, if you only look at one side of the equation.

But in the Non-Core unit, the negative revenues can seem quite large, but it's very capital accretive type stuff. So in some ways I'll let you in on a little secret, where we're not as worried about a negative EPS in Non-Core this year. We are very focused on capital release in Non-Core. So in some ways, I'm not that bothered about how negative EPS is, but I'm really interested in negative EPS in Non-Core next year. And that's why I'm thinking about this as the big year for Non-Core, it's the one time to extract as much capital as we can, take as many assets as we can off.

And then we should have a very minimal Non-Core EPS stream from that point on. And by the end of the year, we'd like to fold it back. So that's what's going on behind the scenes. So I know sometimes people say, that's a big negative revenue thing, but I'm telling you it's very capital accretive and very EPS accretive into the following year when you compare to, say, if you look from 2015 to 2017, you should see – so even if you ignored 2016 completely – you'd see a huge EPS accretion in Non-Core.

Fahed Kunwar, Redburn

Just following on from that point, on the derivative book, it probably is uneconomic to run it down post 2016. One of your peers said that as well. I was wondering, on the funding costs of the ESHLA portfolio, what's the cost associated with those books at the current size as well, so we can get an idea of what that 2017, 2018 baseline, Non-Core negative earnings drag is?

Tushar Morzaria

On the size of the...

Fahed Kunwar

... associated cost base. And on the ESHLA portfolio, just so I understand, what's the exact amount that was deducted from capital? Can we completely look through the ESHLA loss, because it's all deducted from capital anyway?

And the third point is more strategic on re-pricing. So you've seen pockets of re-pricing happening on more esoteric asset lines by de-risking the investment banking business. Is it very unlikely that you'll see re-pricing on the kind of assets you're in in the Investment Bank now? Thanks.

Tushar Morzaria

So on the first question, the cost base associated with derivatives and ESHLA. I think it goes back to one of the earlier questions that was asked about the precise or explicit cost guidance. At the right time we'll probably do this for Non-Core for 2017. So I don't see any other way you could even be able to model that. I can see it's very difficult from an outsider looking in. So probably not at the interims, probably in the third quarter we'll try and give you our forecast of what we expect Non-Core to look like, and that will help you effectively see what costs are remaining in Non-Core as we look to fold it back in. And it will only effectively be derivatives and ESHLA, so you'll see what the swing back will be. Our objective is for it to be very, very small and not very dilutive.

On ESHLA fair value moves, it's not a complete ignore for capital, but you can largely ignore it for capital. Let me leave it at that. Again, it gets into the technicalities of how PVA works with swap spreads and stuff like that, which I won't go into too much detail with. But as a modelling matter, you can largely look through the fair value gains or losses as a capital matter. We did have a large move in PVA this quarter, that wasn't related to the fair value moves. That was separate and distinct from that. That's a change in methodology. So if swap spreads wouldn't have moved at all, we would have still seen that come through.

Your question on re-pricing of assets, just to make sure I answer your question. Was your question more around if just asset prices re-price, would we see gains or losses, or less gains and losses? Or is it more...

Fahed Kunwar

No. It's really on the Investment Bank more generally. I'm just wondering if you de-risk the Investment Bank, the assets in there, are they going to re-price?

Tushar Morzaria

I'm not sure if this is going to answer your question, but let me try. On certain client activity, like equity financing, we have seen a bit more pricing power come back to the industry. I think one of the things the industry is grappling with here is that we're all struggling to earn our cost of equity. So why isn't pricing improving? Capital probably is leaving, and why aren't costs improving, and I guess everybody's trying to improve costs. But why isn't pricing improving? And that is a little bit of an enigma for the industry, but unfortunately, pricing is quite often set at a margin. So if there's one person who refuses to move pricing, it's quite hard for everybody else. So it's surprising how powerful the marginal pricer becomes in the industry. But for things, like equity financing, we are seeing pricing power come back to the industry, where the industry is acting more consistently. But we're not seeing that, necessarily, in all asset classes.

I think, perhaps, as further capital leaves the industry, there's a better chance that pricing power comes back into the industry. We'll see if that happens, we're not expecting it to, but we'll see. We've seen a bit of that. Nothing that's so significant that we'd call out, but we've seen a bit of that.

Tom Rayner

Just a very quick last one. Just on IFRS9, I've been reading a few articles suggesting that the industry is having a bit of success with its lobbying towards getting any capital impact of the accounting change offset. I just wondered if you could comment on that, and what your thoughts are on the latest development. Thanks.

Tushar Morzaria

Yes. It's a very good question. We don't talk about IFRS9 in the Basel IV context, but its part of that, it will have a capital effect. And the unfortunate thing, of course, is we don't know how the regulators will take on board the accounting changes, and exactly what they'll do with the expected losses greater than impairment, and whether it's deducted against Tier 2, or CET1, or what have you.

I will say that the success is in making policy makers in the regulatory space aware that this is quite important and that they need to have a position on it sooner, rather than later. I think there was a slight concern in the industry that this was an accounting change, and the regulator was interested to watch how this all folds out. And we've all been telling the regulator that actually, your involvement is going to be really important because the capital consequences need to be managed carefully. So we don't know what the answer is, but I do feel encouraged that there's a much better and fuller appreciation of what the capital effects could be, and what choices they have available.

My guess tells me that unfortunately we won't know the answers until, if we're lucky, maybe by the end of this year, but possibly beyond, unfortunately. And IFRS9, as you know, goes live in 2018, so it's going to be a little bit tight in terms of banks providing guidance for the effect of this. It may not be until 2017 that we're able to talk to you about any numbers as an industry.

Martin Leitgeb

Just a very quick follow-up on the ESHLA portfolio, just looking at the valuation changes over a couple of the last quarters. Is valuation of that book now somewhere close to where market pricing for a similar loan book would be. Also considering, obviously, the sharp reduction in corporate spreads over the last couple of years?

Is that something you would think of, realistically, that you could, at some point, flip that book and sell that book? Or was pricing, pre-crisis, just so far out of touch with where front book pricing is, that that's just not a realistic chance there.

Tushar Morzaria

It's marked-to-market. So absolutely, it's just quantum and it's very structured. So the natural buyers of this don't want these sizes. No one's going to take the whole lot. And it's probably too structured. They'd want real plain vanilla simple fixed cash flows, which there sort of is, but there are lender option, borrower option, and all sorts of little bells and whistles that they'd rather not have.

So it needs quite a bit of structuring to sell in-size to a real money buyer, which we've done some bits of. The other bits that we do quite successfully is re-finance with the actual borrower themselves, and that's been quite successful for us. It is actually a good business, it's just the daft accounting methodology that was chosen at the time, unfortunately. It's like putting your residential mortgage book on mark-to-market, unfortunately, because it's as daft as that.

So zero delinquencies. If it was in an accrual book consume virtually, like sovereign credit risk, virtually no capital and what have you. The real answer is if you can get it into the right accounting, which everybody agrees is the right answer, ourselves, our auditors, our regulators, but the rules are such that it's quite hard to switch the accounting basis, so we have to manage it in the way we are.

Well, thanks for your time.

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