

Barclays PLC Q3 2018 Results**30 October 2018****Sellside Breakfast Q&A transcript (amended in places to improve readability only)****Tushar Morzaria, Group Finance Director**

Let me start with a few key reminders of comments that we made at the Q3 results, and then we'll go into Q&A. There are three topics I wanted to go through; operational performance, capital, and some reminders of outlook and guidance that I gave.

So, operational performance; we'd characterise this as another encouraging quarter for us, with good returns across both our divisions and across all our businesses. In our UK bank, we are pleased that we were able to keep NIM steady. We talked a bit about asset margin pressure, but we were pleased to grow assets by about £1.5bn, particularly in mortgages, and liability balances increased as well. And some of the NIM expansion from the rate rise in August helped deal with some of the asset margin pressure.

In the International bank, we are encouraged by the performance in Markets, which seemed like another reasonable performance compared to our peer set, so we're pleased with that, and we have steady growth in US cards. We are keeping a keen eye on credit conditions given how long we are into this cycle, but we are pleased with the quality of the book that we're bringing on and the ability to grow it.

Moving on to capital; it was another quarter of accretion of capital for us, actually both capital and TNAV. I think that's helpful and encouraging, to get back to over 13%, given the big dip we took in the first quarter in booking the provisions against RMBS and PPI. So it's pleasing for us that we're getting back above 13% in relatively quick order.

The bigger story for us as a management team was less the absolute level of capital ratio, but more the approval that we received from the regulators to redeem our last remaining dollar prefs, and also to call two AT1 securities that are due for those call dates. The reason why that's very encouraging for us is that it's quite a reasonable amount of capital to be putting out there, 33 basis points, and so we're encouraged by the regulator's degree of comfort in our absolute levels of capital as well as our capital trajectory. And of course stress testing results publications are due shortly - the ECB stress test results will be published very shortly and then in about a month's time or so we'll have the PRA publishing theirs. We found it quite encouraging for the regulators to be allowing that deployment of capital in advance of those stress test results.

And then just some comments on outlook. We'd just remind you that we're targeting a cost base of £13.9bn in the full-year, no new news there. We gave guidance on UK NIM, expecting to be at the low-end of the 320s for the full-year, but given where asset margin pressure is on secured borrowing, and given our change in our product mix, as we prioritise growing our secured book versus our unsecured book, we would expect to end the year at a NIM below the 320 level. It is more driven by mix effects than anything else.

It has obviously been the first year of the new IFRS 9 accounting standard, which will make it a little bit more complicated for impairments, but we will try to be helpful and sift through some of the ins and outs there. All things being equal, I'd expect Barclays UK to be in the low £200m's. CIB is probably the simplest of the lot in some ways, as it will be a function of single name delinquencies in the fourth-quarter, which tends to be the highest quarter for single name delinquencies. It's just the way the calendar effect works with measuring covenants and various other things. We don't see significant signs of stress in that part of the world necessarily, but it's also a reasonably long closed period obviously. You will remember things like Carillion from last year.

And then, finally, CCP. There was a little bit of noise both in this quarter and in the third-quarter last year. We've had the impairment charge for the sale of the higher-risk* part of the book this time last year, which was about £170m, and we had an update to our economic forecast this year.

If you strip that out to get to a cleaner comparison, it will give you a jumping off point to get a sense of what's better or what's worse. I would just say that for the fourth-quarter, again you can look at this historically, it tends to be the highest quarter of impairment seasonally for that business, driven by the holiday season as spending levels tend to be the most robust, and therefore we impair a little bit more. It tends to happen seasonally, and that flows back in the second quarter, on the back of the personal tax season, and you saw that earlier this year.

Just to remind you, we are guiding to a mid-20s tax rate. We have the bank levy charge coming in, which is non-deductible. I haven't traditionally given comments on Markets revenues this early on in the quarter, so no comment to make there but just to remind you that we'd expect the usual seasonal effects of a fourth quarter, but no call on the Markets performance other than that.

Ian Gordon, Investec

Could you just give us a brief comment on the Lloyds pension ruling and readacross?

Tushar Morzaria

Yes, sure, that came out after we reported. The case has been running on for some time and we're still digesting the effects of it. It may well mean a re-estimation of our liabilities for our defined benefits plan, so that will have potentially two effects, it is way too early to talk about any numbers, but to the extent we have to revise our liabilities estimates upwards there may well be a P&L effect. That will come through in the fourth-quarter.

And as a capital matter, we're actually in an accounting surplus under IAS 19. To the extent that we have to revise our liabilities estimates upwards, it would reduce that surplus. Assuming the pension fund remains in accounting surplus, there will be no capital effect as such. If it dips into a deficit, then there will be a capital effect.

So if other people are calling out an effect, I imagine we're not going to be that dissimilar to others, but it is way too early to talk about numbers. We haven't done the work yet.

Ed Firth, KBW

Can I bring you back to capital, and the share buyback? My understanding is that, as and when you announce a share buyback programme, you have to take a full deduction from capital at that stage. I suppose the first question is, is that your understanding as well? And, secondly, with that being the case,

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given that in Q4 you're only going to be generating reasonably low basis points of capital, how can we really be looking at a material share buyback programme starting at the full-year?

Tushar Morzaria

I think your understanding of the rules is my understanding as well, under the CRR. Some people have announced buyback contingent on capital levels, but we haven't really looked at it that closely and I don't really know what rules would apply. But, yes, my understanding of the CRR is that if you foresee a buyback, you have to deduct the capital effects of that.

Talking about year-end, we haven't really given any outlook to expect a buyback at year-end, so you can take that whichever way you like, but we haven't, hopefully, been setting any expectations for an immediate buyback. That would obviously be quite a public announcement. But yes, your understanding of the rules is the same as ours, you do have to deduct it at the point of announcement unless there's some other contingent way of doing it, which we haven't really looked into.

Ed Firth, KBW

I guess I just put your comment, or I think it may have been Jes' comment, that we should expect something at the full-year, in more detail, in terms of a capital programme. I think he was covering both buybacks and dividends. You also alluded to the fact that you wouldn't have the prefs buy-back and you wouldn't have the legal settlement, which I guess together is almost over £2bn, which I guess a number of people might have gone away and thought that's the sort of number we should be looking at in terms of free cash for next year.

Tushar Morzaria

Yes, we've given our intention of paying a 6.5p dividend for this year, but we haven't really made a statement as to what investors should expect beyond that. I think at the full-year results, we'll talk about it more in terms of framework and policy, instead of putting expectations that there will be some grand announcement out there.

We will come back at the full-year and talk about a capital management framework and how we see the dividend policy, along with other forms of capital returns back to shareholders evolve and over what timeframe, along with some sense of what to expect. It will be more qualitative rather than quantitative.

Corinne Cunningham, Autonomous

I'm on the fixed income side, and I do get quite a lot of questions on whether there is something building up in terms of dollar funding, in particular dollar short-term funding. There doesn't seem to be any particular pressure when you look at the macro environment, but it's still a persistent question and I just wondered what you're seeing, what you're experiencing on inter-bank repo dollar funding?

Tushar Morzaria

I'd agree with you; we've obviously had a little bit of Libor-OIS gap earlier in the year. Spreads have perhaps widened a bit and the volatility of spreads is a little bit higher than it's been for some time. But we're not seeing anything in terms of difficulty in terms of accessing inter-bank markets or money markets, or any other funding sources. Away from commercial paper-type programmes, for the term-funding markets, there's been quite a decent supply of MREL from UK banks coming into the market. I think that's a reasonable amount for the investor base to digest, but we're on-track with our issuance plans. We've issued almost £9bn of MRELS this year, and we target somewhere between £8bn and £10bn

a year, so that feels like we're in the right place. It's something we're mindful of, but I wouldn't characterise it as any pressures resulting in any difficulties as yet.

Andy Coombs, Citi

My first question is on the top line. If we go back to the target that you set for 60% cost: income ratio, and you provided absolute cost guidance, so we know, give or take, you're looking for £2bn of revenue growth between 2017 and 2019. If I take nine months YTD 2018 versus nine months YTD 2017, you've seen zero revenue growth, with UK stable, CIB stable, and CCP down. I am just trying to get a feel for what changes in this trajectory. Is it a hockey stick effect that we should be expecting here? Or is it a case of you now think that the 9% RoTE target comes from other measures, like lower impairments, or something along those lines. My second question is on IFRS 9. Is it possible to shed any light on the weighting that you apply between the two adverse scenarios, the two favourable scenarios, and the base line? Some of your peers provide this so it would be quite useful for us.

Tushar Morzaria

Yes, sure. In terms of the 9% target, we only gave really one anchor point to that, and you'd have to infer all the other line items. We gave a range of costs and you can back into what top line that may need to be, but then you've also got all the other various line items in the P&L, so I don't really want to make a comment on the full P&L in terms of guidance.

Having said that, in the spirit of your question, I think we are keen on growing the cards' top line; we've had some changes in the portfolio there. We have exited a higher-risk* part of the book and we've sold a very high-quality but low returning book in the summer. There may be books that we add, so that will be pluses and minuses, but generally we feel constructive in the US and in that business, and we'll grow it in a controlled fashion where we can, given the inorganic activity that you have in that business. We are making no prediction of inorganic acquisitions but we've done that in the past.

In our CIB, it's a tale of various factors there; Markets revenues have obviously improved. Investment Banking revenues are pretty strong, slightly lower in the third-quarter somewhat driven by Equity Capital Markets, but in the main they're very strong. In Corporate, we have obviously rotated capital away from it resulting in lower income, but we have also spent a bit of money hedging the corporate book, so it runs through that corporate lending line as well. We get some of that back in impairments, of course, by those hedges performing or, indeed, lending less.

We'd like to continue the progress we've had on some of the parts of the business and feel there's the ability to grow as well. I think the real big thing in the UK is that we are, as are most banks, geared towards the rate environment, but it's a trickier one to call, obviously, because we've had a rate rise but asset margin pressures soaked up some of that. We'll have to see what the effects are, and whether we get rate rises next year.

In addition, next year is a really tricky one to predict in terms of the economic environment, given the external forces around there. Our level of diversification should give us some protection to manage through various paths. As we are geared towards revenues in dollars, it gives us some protection if there's extreme weakness in sterling.

We are geared towards volatility in financial markets, so if that's disrupted, traditional banking franchises should provide some offsets. We are geared towards the US consumer, which should provide some protection if the UK goes into a unilateral slowdown. And of course we have a UK bank and so, if the UK

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economy remains robust, then that's also good for us. Diversification is something we hope will come through if necessary.

I think at the end of the year there will be a lot more disclosures on IFRS9 than you see now and that will help you compare and contrast. We run five scenarios, two-up, two-down, and a baseline, and it is quite complicated, because you've got the interdependencies of the various moves across those scenarios.

So, for example, in the first quarter, it was actually the improvement in US house prices in the down scenario that was the most interesting effect for us. This time around, it happened to be unemployment rates. The only thing I would say is when I've compared ourselves to the other banks, the most interesting thing to me is how much of our balances are in stage 2, relative to certain peers, especially across the European banking space.

It does feel like we've got more in stage 2 than others, which could either be a function of our book being more risky, or it could be a function of our starting balance being a little bit more conservative. It's very hard to know until you go through some movements to see whether we genuinely have a riskier book. Hopefully by the full-year results, with some more disclosures, we will know a little bit more about the relative comparisons.

Robert Sage, Macquarie

I see that you have been growing the CC&P business with negative jaws year-to-date, and I was just wondering, looking forward into next year, whether it will be a continuation of that trend, or should we expect to see positive jaws emerging?

Tushar Morzaria

Things like currency effects and the sale of portfolios make that more complicated. Underlying jaws in the first-quarter were very slightly negative and I think there were neutral jaws in the second quarter on an underlying basis, stripping out the ins and outs. Having very gentle negative jaws is not such an unusual thing as we try to grow the business.

Over time we should definitely see positive jaws. I think the one thing I've learned in this business is that in some ways the extent you get very positive jaws, it probably means you're under-invested and potentially storing up revenue challenges prospectively, unless you're trying to make a very clever call on the cycle. As we re-stock the J-curve and grow the book, very mildly negative jaws feels about right. When they mature, I think we will see very mild positive jaws, but I wouldn't say significant positive jaws is something that I'd guide you towards.

If we do see those significant jaws, it probably means we're arresting the growth of the book, and that may be the right call, but we'll try and be transparent if it comes to that.

Raul Sinha, JP Morgan

My first question is on costs. The Q4 guidance, or the full-year guidance, implies a pick-up in costs in Q4 and I was wondering if you could talk to us about what are the areas you are spending more on? If you think about next year, are those areas of investment sticky, or is there flexibility that lets you pull back a little bit on costs if you needed to? And where would you look at savings if you had to?

The second one is on CIB and Markets, I think Jes talked about a Markets RoTE on the call, and I was wondering if you could talk a little bit more in detail about that? And related to that, if you look at the CIB RWAs in the quarter, they were down quite a bit relative to normal seasonality and I was wondering whether we should expect that to pick back up into Q4, or is that a new run rate?

Tushar Morzaria

On costs, yes, there will be a pick-up on just the implied amount from where we are in the third-quarter. For the fourth-quarter, you'll make your own adjustments for bank levy, but you'd expect a pick-up in costs away from bank levy. We've guided to some of this at the interim, so some of these are just things we can foresee. One of the things we haven't called it out, and I don't want to make too big a deal of it, but it is a fact of life, is Brexit preparations.

It will be a busy period for us, as head into the early part of the first-quarter, to make sure that we're ready in ample time for the March date. It's just something we have to deal with and it takes a bit of money. We have other actions that we have in the plan that are efficiency-orientated, and I don't want to be too public about them, but by the time we come to report you will probably have heard what some of these are about.

So, again, those are the in the spend-to-save category and obviously we've given a range of guidance next year, and that's been in preparation for ensuring that we get into the right part of that range into next year.

I think your question on the flexibility of costs is a very good question; I think at the right time I'll probably ask Paul Compton to join me on a results call. As our Chief Operating Officer, he manages a very significant part of the company's cost base. I'll ask him to talk a little bit more about the productivity that the company is generating, and how much of that gross productivity we're re-investing, which we haven't shared with you explicitly.

You'll get a better sense of how much of those are multi-year - once you begin a journey on a re-investment, you stick with it - and how much are more discretionary nature where you can be nimbler in changing spend. I think most people will be surprised at how large the gross productivity is, as we haven't really shone a light on that externally, but we'll talk a little bit about that. And you'll get a sense of how the cost base has evolved from the restructuring phase to an investing for growth phase.

Some of these projects are near-term, while many of them are more medium-term. I know there's a reasonable demand for hearing more about that, so I will ask Paul to join me at the right time and talk about that in more detail.

We've never called out an explicit number for Markets returns, although as Jes has mentioned, it's been double-digits in the first two quarters of the year. It's also been higher than the CIB average of 7% in the third-quarter. We think we've made reasonable progress. It's not the best environment to be in for the sales and trading business; asset price volatility hasn't been particularly significant and therefore volumes haven't been very significant either, and yet we have been able to generate a return that's comfortably above the CIB average.

Regarding RWAs, we did put a little bit more leverage into the CIB, but we're done with that. We don't think we need more risk-weighted assets in the CIB. It will ebb and flow and there will be seasonal effects, but I think on a trend basis, we shouldn't expect it to grow much. If it does shrink, it will be because of seasonal effects rather than any sort of permanent step-down. We would like to grow the other parts of the Group and that will take a bit of time, obviously, they're not as capital consumptive but, over time, you should see the portfolio mix change gradually.

Raul Sinha

In the past, you've called out that the corporate business is quite RoTE dilutive in the CIB, and I think one of the aspects of the reallocation of capital has been that the corporate revenue line has come down, so I was wondering if the corporate RoTE has actually improved at all, or is it just a matter of shrinking that business?

Tushar Morzaria

It has definitely improved, but it's probably slightly exaggerated the step-down in revenues, which is probably down around 30% if you compare it period on period and year on year. Some of that is the cost of hedging the book. If you look at credit conditions in the UK, we haven't really seen any stress in credit, apart from parts of UK corporate. We have been quite conservative in hedging the UK corporate book and of course that costs money and that will be through the lending line.

Now, we're very, very glad that we've hedged that book, so we've avoided a lot of the well-known names' credit issues, and we haven't really taken any significant impairments at all this year. Even Carillion wasn't very significant for us, because we'd been either well-hedged or, in actual fact, our team has done a really good job of avoiding lending to certain names, many of which have ended up in receivership as well. So part of that reduction in the lending line is probably exaggerated because of the cost of hedging.

I don't think we'll change that in the near-term, given where we are, but perhaps when things are clearer, and we feel more constructive, then we would lift those hedges.

Joe Dickerson, Jefferies

The regulator here has had a slight bee in their bonnet about the leveraged loan market, particularly in the US, and it's an area where you've been growing. Where do you perceive that their concerns are coming from? Is it that something warehoused getting stuck because the market seizes up, or is it more the corporate refinancing risk that they're worried about, and what happens over the next cycle? If you could shed any colour on that, it would be useful because it's not so clear to me where exactly the risk that they're worried about lies.

Tushar Morzaria

I can only talk about Barclays and what we see. In the UK, certainly, loan syndications are down significantly year-on-year. I think on our numbers, down 20-25%.

Joe Dickerson

Worried about the UK as much as the US?

Tushar Morzaria

Yes, and I'll come on to the US, which is obviously a totally different animal. But just to throw it out there, leveraged loan exposure, for us at least, is down similar quantum, so I don't think it's a UK-centric risk. It's more of a global risk, very much a US risk. I think the Fed has done a very active job of controlling the type of leveraged lending and syndications going on. We feel pretty good about our business, there's the SNC review, the Shared National Credit exam that takes place every year, and we didn't have any criticised loans there.

We've also been in close dialogue with the Fed on all the lending commitments and underwriting that we've been doing. Having said that, there's been a lot of lending going on, and I think the refi-risk and where those assets are, they are probably more in the buy-side community than the sell-side community, as opposed to the last time where there were a very large quantum of loans that were stuck on bank balance sheets and that created quite a bit of pain. I don't think banks' balance sheets are stuffed full of such loans anymore, it's maybe in ETFs, maybe in CLOs, wherever the end users are, and I think that's probably an area that policy-makers need to be mindful of.

Chris Cant, Autonomous

In your comments on CC&P, you were talking about very slightly negative jaws being the right place for that business in terms of your growth and J-curve, so are you expecting negative jaws in 2019 and 2020, or should we expect it to start improving into 2020, perhaps? That would be the first question. My second question is on revenues. I appreciate you don't want to steer us on the top line in terms of a specific number, but you did give a £13.6bn to £13.9bn cost range, and obviously we've had some currency fluctuations and a lot of other stuff going on in the interim, so where in that range should we be thinking you're going to land next year? Are you expecting to be at the upper or lower end of your target? Thanks.

Tushar Morzaria

On jaws in the cards business, I think a bit of history is probably helpful here. The discontinuity that we had in the business was the American Airlines portfolio, part of the book was being re-tendered and we stopped growth in that book. So it's a little bit of a re-setting of the book, and that's what we're paying for now. That typically is an 18-month period, plus or minus a little bit, but that came on in the tail-end of last summer. As we're getting to 2019 and beyond, that business becomes in more in equilibrium.

Of course there are so many other factors that it will depend on; if we add a book, that might again take us more into negative jaw territory, as we put some more growth into the book. If we decide not to grow as much as we were intending to, because of market conditions then jaws can become positive quite quickly. The reason I wanted to call that out is that we are mindful that we're long into a cycle. We like the business, we think we can grow the business, but we're going to be very careful around the credit conditions that we grow that book into.

In terms of guidance for next year, to the extent foreign exchange rates move significantly from when we gave the original guidance, we'll just re-strike that. Obviously weaker sterling is beneficial to us, although it will put cost pressure up. The sterling is probably a touch weaker today than it was in the first-quarter of last year, but we'll revise guidance when we get further into 2019.

And that comes to the earlier question around the flex we have to move inside that depends on where we see the revenue environment. Some of that, of course, is compensation; our ability to flex compensation is more significant than it has been in previous years, the accounting changes we put through 2016, and some of that will be genuine discretionary spend that we see the option to turn off if we so desire.

I'll get Paul to talk a little bit more about that on one of the earnings calls, so you'll get a better idea on what we're spending on there, and what to expect.

Guy Stebbings, Exane BNP Paribas

Coming back to capital - clearly the capital position's improved recently, but if you look at your capital target versus what some of your peers are targeting, some of them appear to be adding a bit more buffering for Brexit uncertainty, or regulatory headwinds. Could you give a bit of a comment around how you're thinking about those items in particular when you're thinking about distribution potential? And, linked to that if you'd gone to the regulator and instead of asking to do the prefs buyback and AT1, you'd asked to do a buy-back to shareholders, do you think you would have got the green light to do that?

Tushar Morzaria

No more comment on the second question, we'll find out when we ask. On the first question, we've tried to be as transparent as we can on our capital stack, and why we think 13% is about the right level. I have three tests in my mind; first of all, we've got to be above regulatory minimum, which of course we are. The current level of regulatory minimum for us is 11.4%, and we're 13.2%, so we're comfortably above that.

Second test, is that we have to be above what's called the PRA buffer, which is not a number you would be aware of as we can't share it publicly. At 13.2%, we're comfortably above the PRA buffer. Finally, we've also got to pass every form of stress testing, your own as well as others. The PRA annual cyclical stress test is the most relevant, and they're quite transparent in terms of the draw-downs, but 13.2% CET1, with today's draw-down level, we believe is sufficient to keep us above the systemic reference rate, given our business is smaller and with less conduct etc.

In terms of headwinds on the horizon, our view is that we're reasonably capital-generative, which you saw this quarter. We were able to pay over £1bn in dividends, settle about £2bn of conduct costs, and improve our capital position. To the extent that we go into an environment where we need to retain more capital because of passive RWA inflation as a result of market turmoil, I think the earnings capacity of the company is sufficient to absorb that.

There are a few regulatory headwinds and rule changes on the horizon, but they're quite far out. You have the fundamental review of the trading book may come in in 2021, maybe 2022. SACR also comes in over that sort of time period. You've got Basel IV possibly coming in 2022. These are all 3-4 years away, and in a post-Brexit world who knows what that really means for UK policy-makers and how they think about some of these things.

For me, I think that's ample time to the extent any of those become significant and that we can deal with them just through the passage of time, rather than to pre-emptively hold a capital buffer two, three, four years early. However, the goalposts for capital have certainly changed since I've been here, virtually every year, so I'm not naïve or sanguine about the fact that capital levels can be fluid and may change, and we'll keep you absolutely updated on our latest thinking as different facts and circumstances arise.

At the moment everything I can see on the horizon tells me that around 13% should work for Barclays. If that changes, we'll let you know straightaway.

Rohith Chandra-Rajan, Bank of America Merrill Lynch

You talked a bit on the call around the UK mortgage market and pricing. Looking at BUK loan growth, it's been quite steady for a few quarters, and it stepped up a bit in Q3. The approvals data suggests the mortgage market might be cooling in terms of volume but pricing pressure continues so I'm just wondering what your growth and market share aspirations in UK mortgages are. You mentioned that you still like the risk-adjusted returns even at current pricing levels.

Linked to that, I am just thinking about overall RWA growth, putting together some of the comments you made before. In BUK, RWAs look like they're stable with a growing mortgage book, while the consumer side is slightly down, so it looks like a bit of a mixture with stable RWAs; CIB, as you've said, is pretty much flat, with some growth in CCP. Does that lead us to very modest RWA growth in this business then?

Tushar Morzaria

Regarding our market share of mortgages; yes, it's definitely cooling down, as you've seen in the public data on application levels. This is not surprising given where we are in the year, and also where we are with various firms and the political situation. The data is probably also a little exaggerated. Generally speaking, you get fewer house purchases in the back end of the year; it normally picks up again in the early part of the following year.

We have been growing our book steadily. Our market share in UK mortgages is approximately 10% and we've been growing our book roughly at those levels, although it's very skewed away from certain types of mortgage products and overweight in our traditional lower margin, lower risk mortgage products.

We do like the mortgage business a lot and we do want to continue to grow it but pricing is very competitive and that is something that we're paying close attention to and making sure that pricing doesn't come down to a level at which we can't justify putting on those assets. We're not there yet; it's a good business with good risk characteristics; we like the return characteristics but pricing is certainly very competitive, so we are watching it extremely carefully.

In terms of risk-weighted asset growth, we should expect BUK business to grow a little bit. Given that we're prioritising mortgage growth relative to unsecured growth; obviously that's a lower risk-weighted asset book so I'd expect modest growth in BUK risk-weighted assets.

Broadly speaking if you take the average of 2018, CIB will probably give a sustained level of RWA. We'd like to grow our CC&P business, but it has obviously a slightly higher risk-weighted density given its unsecured credit. We would like to grow it, but we've been very careful about doing that at the right mix of business given where we are in the cycle. BUK and CC&P RWAs should grow very modestly from here on a continuing basis. CIB RWAs should stay broadly where they have been this year.

David Lock, Deutsche Bank

One of the things that consensus has going up quite meaningfully is impairments. I just wondered, with three months of experience, how you and the management team are thinking about through-the-cycle impairments under IFRS 9, because it's a big step-up and we've been wrong before in forecasting it, but then so has everyone else. How are you thinking about that, particularly in the context of capital returns?

The second question is about CIB. I think it was about June last year you gave a figure of £90bn of RWAs in the corporate business, and you said 25% of that was making sub cost of equity. I wondered if you could give an update of where that balance has got to today. Given your comments and Jes' comments about the Markets RoTE it would seem that there must be quite a lot more than 25% of that RWAs that is earning sub cost of equity today, so I just wanted you to talk about how quickly we could expect that to come out over time.

Tushar Morzaria

I think over time, as IFRS 9 is a more pro-cyclical standard by design, you would expect a quicker build in impairments as the environment foresees a deterioration in the economy. It will take a bit of time to get some consistency. I think a more useful measure before people get used to the ebb and flow of the accounting pro-cyclicality is charge-offs and coverage ratios on delinquencies.

I think over time there will focus more and more on those measures until we all get more comfortable with the ebb and flow of IFRS 9 in a world of cycles. In terms of what that means for distributions, I think that's one of the reasons why the PRA were quite keen on the transitional framework, so you'll have a shape that will perhaps have these moves baked into them but the capital will have a dampening effect.

I think regulators have been reasonably clear that they don't want this change in accounting standards to directly transmit itself to a different level of bank capital. Over time it will do but not instantaneously. I'm cautiously optimistic there, given that stance from the regulators, given how they're doing stress testing this time round to try and capture the effect of IFRS 9. That will be taken into consideration when they're looking at bank distribution, so for the banking universe probably both on the upswing and the downswing they'll try take a trend view rather than a point in time view but that remains to be seen.

On the corporate loan book, there are still parts of that business that aren't returning where we would like them to be, but we're not going to rotate more capital out of that loan book into other parts of the CIB necessarily. We like the corporate business, we like the stabilised revenue environment and we

generally like the risk characteristics of that book and the business it provides like transaction banking, trade finance and working capital itself.

As these facilities come up for further renewal we'll engage in appropriate pricing discussions with our clients and strike the right balance for the business. We will review our capital allocation to our clients only if we are completely unable to do that, but that's not our expectation. It just looks like a slower-moving piece given that typically the term lasts on average for about three years, sometimes up to five years, and it just takes some time to rotate. We're expecting continuous improvement on that, but we haven't given any more specific numbers and I don't think we will. I think now the CIB returns should reflect all of the actions that we've taken.

David Wong, Credit Suisse

My first question is on the Investment Banking Fees side of your CIB. We have seen the benefits of you allocating balance sheet capital to the trading businesses and you talked about the outperformance there. On the fee side of things, Dealogic suggests that your market share has remained pretty stable at around 4% to 4.5% for the past few years. Is that a fair comment?

You've also had plans to try and improve your market position in the IBD side and related to that is you mentioned a bit of ECM weakness in 3Q. Can I also get your thoughts on the ECM business on a three to four year view?

The second question is on US consumer finance growth. I don't know when the next recession will be, but in terms of expecting a 10% growth in the consumer finance book are you confident in achieving that over the next 12-18 months?

Tushar Morzaria

On Investment Banking fees, we're very focused on looking at market share in the US and the UK, rather than the broader global banking fee wallet, and there we have seen our market share in IB fees improve.

I think we're probably punching above our weight in M&A, and what is somewhat unusual is that usually if you do very well in M&A you tend to be very good at equity underwriting, and we're probably the exception to that rule; we tend to do much better in M&A than we do in equity underwriting, which ought to be something we can fix. M&A's probably the hardest product to get that relationship with the client and the capital markets is a more a product-related strategy which is easier to execute.

We don't have quite the diversification that we would like in the Investment Banking Fees business; we're overweight in certain sectors and underweight certain other sectors: real estate is great, healthcare is great, but tech and life sciences are not so good, and we can't benefit as much in the times when some of those sectors are very active in equity markets. There are some pockets of investment that we would want to make to get a better balance in that fee business, but I think in the first six months I think we have had record M&A fees, and on the first nine months it may have been a record DCM performance measured in dollars.

So that business is very good but I'd say if there's one area of vulnerability, it's sector diversification and that's more pronounced in the equity underwriting space than anywhere else.

You're right in that consumer finance is long in the cycle and who knows when the next recession is. We don't have a crystal ball either, but that's why I keep on saying that we like the credit fundamentals of the US, we feel it's above-trend growth, it feels like a functioning economy and definitely feels very attractive

to us, but we want to grow that business in a very controlled manner. We don't want to be growing too hard if there is a turn in the cycle so expect a degree of prudence around them.

Ed Firth

Can I just come back to the old activist question? It does seem that we're having the same conversations at this breakfast that we probably had two, three years ago and we have been talking 10%, 11% returns for years. We've also been talking about a share price between 170p and 230p for years.

You've now got an activist who doesn't apparently seem to be doing anything and I'm just wondering what is actually going to shake this whole cycle into something, which perhaps might be more interesting in terms of what might change going forward.

Your comments would be interesting on that firstly, and secondly any update on what the activist is doing would be helpful, because I certainly don't have any insight and I don't know what he's doing in terms of talking to you and giving you more colour on perhaps some of his plans.

Tushar Morzaria

I think it's been a long, hard road for Barclays; we've been restructuring the bank for some considerable time; we started quite late so therefore we've finished probably behind many of the other banks who started two, three years before we did. I'd say we probably only began in 2014 when we first created a Non-Core division and we started re-provisioning the investment bank.

So we are where we are; I've been here five years; we've had three chief executives, two chairmen and probably another chairman once John McFarlane moves on, because he said he'd only do three years and his three-year term comes up next year. We've had four heads of operations and technology... the list goes on and on, so we've had a lot of change and action in the company.

I would say that it does feel that this period of restructuring and repositioning at Barclays is over from my perspective. I do think getting the approval to spend 33 basis points of capital in advance of some important stress-test results is encouraging.

I'd like to think that from this point on it's a bit more normal Barclays in the sense that we have some businesses; you may like them, you may not like them; they may work well in certain business cycles; they may not work well in other cycles, but we are where we are. We believe we have a degree of diversification, we believe we have a degree of resiliency, we believe we generate a reasonable amount of capital and people will decide whether they find that an attractive investment or not at different points in time.

I would like to think that, looking forward, it's a different view that Barclays will present of itself than perhaps the last ten years where the complicated, massive restructuring events have made our business particularly challenged, and we were doing a lot of things that just weren't fit for purpose in the modern world of bank regulation. It's been hard yards repositioning ourselves from starting late as well.

In terms of the activist, yes, I've met him in May and I'll meet him again some time in November. I haven't had any direct interaction with him between those two meetings. We believe he's been talking to his shareholders, obviously some of them are our shareholders so we do hear things second, third-hand but I'm always very reluctant to perpetuate those whispers. Things get lost in translation and people put their own spin on what they may have heard, and how they want it to be heard and that's not really something that's going to be constructive, but I'll meet him again in November and see where we go.

The only thing I'll say is, he owns a lot of shares, we own a lot of shares. We all want the share price to go up, so we should have a huge alignment in interests there.

Ed Firth

But are the plans that he's articulated in the press - I assume he's articulated them - are they broadly consistent with what he's been speaking to you about?

Tushar Morzaria

As I say, we haven't had direct interaction. I've met him once and I'll meet him again. I think he's been more talking to other shareholders and discussing ideas. I'm very reluctant to hear things second-hand and then make them third or fourth-hand.

Chris Cant

In your RWA growth commentary you talked about very gradual growth in Barclays UK RWAs from here. We've got a couple of consultation papers around mortgage risk-weight changes in the UK which are going to take effect in 2020. Should we expect a step-up in your risk density? I know your risk density is higher than for some peers but when I think about the likes of TSB and Sabadell effectively pointing to a 17% effective risk-weight on UK mortgages, and that's where some of the challengers are landing in terms of their IRB transition movements as well. Should we expect a step-up in your case?

Tushar Morzaria

It will increase our risk-weighted density. 'Step-up' probably feels like a stronger adjective than I would use; it'd be a modest increase in risk-weighted density and, as you say, it'll come through in 2020 so before we get too near that point in time we'll probably give you some guidance around it. I don't think it'll be, in and of itself, that significant when you look at the composition of the group but there will be some modest increase in risk-weighted density.

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