

**Barclays PLC Q3 2017 Results****26 October 2017****Results call Q&A transcript (amended in places to improve readability only)****Joseph Dickerson, Jefferies**

Good morning. Two questions, if I may. Does your cost guidance embed any inflation around Brexit costs? And perhaps you could elucidate for us any steps you've taken regarding operations in the EU. I think in the past you've mentioned Dublin and Frankfurt.

Then the second question is, regarding a competitor of yours, the PRA increased their Pillar 2A CET1 requirement, and I was just wondering when is this next reviewed by the regulator for you, and do you anticipate any changes? And if there were changes, is this something that you would present with your capital plan and policy when you talk about it at full-year results?

**Jes Staley, Group Chief Executive Officer**

In terms of cost inflation with respect to Brexit, in the numbers you have, that includes any and all costs related to how we will deal with Brexit. As we said, we are expanding our licence in Ireland. It will increase our headcount there by roughly some 150 people and then we'll engage in the process of relicensing our branches across Europe from branches of Barclays UK to branches of Barclays Ireland.

I would say that the cost of reorganising with respect to Brexit is dramatically lower than what the cost was to set up the IHC in the United States and not even comparable to the costs it took to set up the ring-fenced bank.

**Tushar Morzaria, Group Finance Director**

On Pillar 2A, your question is timely. I actually received our Pillar 2A guidance yesterday evening. There's nothing I need to update anyone here on and there's no material change for us.

**Claire Kane, Credit Suisse**

Two questions, please. The first around the CIB RoTE targets – can you give us a sense of how long you think it will take to get that business to a 10% return? Because clearly I think if that got there, then the Group would be well in excess of 10% by 2020. Also, perhaps you could give some colour around what revenue margin you're making on the leveraged balance sheet in equity and debt financing.

Then my second question is around margin and rate sensitivity. Could you maybe talk about the compression you've had in [underlying] UK NIM in the quarter, down 13bps? And also what are you assuming on interest rate hikes in your return targets through to 2020? I notice you've given a lot of colour on what the rates benefit would be in years two and three, so if you could talk us through what that would mean for your return targets. Thank you.

## Jes Staley

In terms of the CIB RoTE, we've been very clear – Group returns for 2019 will be greater than 9% and Group returns for 2020 will be greater than 10%, and that's being driven by profitability across the Group, both Barclays UK and Barclays International. We don't give out specific RoTEs for CIB in terms of the targets, but we would expect to get very close to the double-digit returns necessary in a like timeframe.

## Tushar Morzaria

Why don't I cover your question on financing margins and then NIM more generally. In financing margins obviously they'd be driven by market pricing and so I'm sure you can ask folks in the market as to where that is, so I won't comment on that.

But there is something that's worth pointing out that may help you model how we think about these things. We've talked about a recycling of risk-weighted assets and also an additional leveraged balance sheet that we'll deploy to parts of our trading businesses. If you think about risk-weighted assets for the moment – very, very simply, in the investment bank, you could probably assume that the investment bank is running at about 100 billion of risk-weighted assets. I'm excluding operational risk-weighted assets here, and that's a number that you'll have seen in years gone by, so just take that as a yardstick rather than precise guidance or anything like that. Revenues in the investment bank – I'm talking here about investment banking fees and sales and trading revenue – again no real forecasts for this year but if you look at prior years you get to about £7.5 billion. So [the revenue on risk-weighted assets is] about 7.5%. We'd like to think that the recycling of those risk-weighted assets should generate a meaningful [incremental] revenue on those RWAs. You can make whatever assumption you like. [Even] if you assume that we can't, at the margin, generate the average [revenue] return – say we generate ... two-thirds of that – it's still a meaningful amount. So even if you're generating, say, 5% on those risk-weighted assets, at the margin, for every £10 billion [of risk-weighted assets recycled] that's £500 million of revenue. So we feel there's a meaningful opportunity there. Those are just illustrative numbers, not necessarily precise numbers. I'll let you do your own thinking on that.

On financing it's a similar idea. Again I won't give precise commentary on financing spreads but you can do the maths quite simply again; \$10 billion of [additional] leveraged balance sheet and let's say you're earning, say, 50 basis points – you can do the maths for yourself. Again, it gets quite accretive and that's actually a net addition of leverage rather than a recycling.

Switching gears now to talk about banking book net interest margin – the compression in UK NIM was principally the dilution effect of ESHLA. We still think, on full-year basis, NIM will be over 360 basis points in the UK [excluding ESHLA] and over 340 basis points in the UK if you add back in the full year effects for ESHLA. So some dilution there, but we believe the NIM levels are pretty healthy and pretty stable.

Your final question on assumptions we'd use for the rate environment; what we typically do when we do our planning is, during the summer we take consensus forecasts of publishing economists from, say, Bloomberg, and whatever they assume for GDP growth, unemployment rates, house price appreciation, interest rate movements etc. that's the scenario we take. If you go back to the summer, there was no forecasted rate rise for this year and I think only one for next year. And that's the assumption that we take for our planning assumptions. If of course the rate environment is more helpful, then that should be additive to anything that our forecasts were based off. But things can go both ways. If unemployment levels are healthier then that would be helpful, if they're worse that will be a headwind. But that's how we've thought about it.

On a direct basis, if we have more rate rises than were predicted in the summer then that will be helpful for us, but that was not in our assumptions.

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

Morning, everyone. You've pre-empted one of my questions there on the IB, but just to close the circle on what you were talking about regarding the revenue to risk-weighted assets, what's the current revenue to risk-weighted assets that you're getting on the £20 billion [of risk-weighted assets] that you've identified in the corporate bank? And what MIFID II impact are you budgeting for in your Equities and fixed-income businesses?

And I appreciate you don't want to be drawn on RoTE targets, but I was wondering if you could give us any type of guide on what you think the revenue base is that is implicit in your CIB targets?

Then just very quickly on the UK bank – the NIM was 328 basis points in Q3. You're clearly growing in mortgages again. I notice you were very competitive actually in the third quarter. I was wondering if you could give us a view on what type of blended margin you're originating at currently in the UK? And if you could tell us why your fees jumped in Q3 versus Q2 that'd be very helpful as well? Thank you.

**Tushar Morzaria**

Let me take them in the order you gave them. In terms of efficiency of risk-weighted assets – I think your question was around the proportion of the £20 billion or so that we've already recycled, what's our margin or revenue over risk-weighted assets? I won't quote precise numbers because it's obviously quite complicated, but I do think that the yardstick I gave you of the blended average – just the maths I laid out of about 7.5% [revenue on risk-weighted assets] and doing everything we can to generate a marginal [incremental] revenue as we recycle – is probably a reasonable way for you to think about it. So we do think this is meaningful over time. We're only really just beginning this journey so hopefully as we get into next year and beyond you'll see the full effect of that.

We're well-positioned for MIFID II, and we'll be ready for the launch date, of course, early next year. And any headwinds that that may present – and of course it's very difficult to quantify this, particularly around the unbundling of research products – is already in our forecasts. But there's nothing significant that I'd call out. We like the research product that we have, we'd like to continue to invest in it and are having very active dialogue with our clients on how that unbundling would work.

The revenue base of the CIB – I'm not sure I got the full gist of your question there but I think it may have been, what's our jumping-off point, what base are we assuming in terms of growth from. I'll let Jes add to that if he wishes to but I will say there's nothing particular about this. We're growing from where we are and where we have been. So we don't try and get too focused on an individual quarter, more the trend rate.

**Michael Helsby**

Tushar, it was more about what revenue growth you're aiming to deliver – so to be consistent with your plan is it a plus 15%, a plus 20%? I'm just trying to scale the ambition, if you like.

**Tushar Morzaria**

Yes, understood. I won't quote a number then, Michael. I understand the point of your question and I wouldn't necessarily just focus on revenue growth in the CIB, albeit it is important. You'd expect revenue growth across the full waterfront of businesses, as Jes laid out. So hopefully to give you a chance to think about how to model it for yourselves, the marginal returns on the capital deployment will give you at least a sense of what we would expect. And obviously by trading better in various other things you'd expect us to do a bit better in that as well.

## **Jes Staley**

We're expecting growth from across the bank's platforms, so this is not simply a reliance on the IB. We expect growth in the credit card consumer portfolio of about 10% per annum which we've been achieving in the last couple of years and on the back of things like American Airlines and Uber. We grew our balances in our mortgage book in the UK by £2 billion in the third quarter alone, so we see growth there. We see growth in the payment side.

Then to the IB, what I'd say is when we talk about that £20 billion reallocation of risk-weighted assets, assume that by and large, that £20 billion had been generating a mid-single-digit return on tangible equity. And as we reallocate it, we're clearly reallocating to businesses that are generating a return in excess of our cost of capital. And that's just efficient capital management.

In terms of the IB, this is really the first time since 2012 where we have the capacity, given our leverage ratio of 4.8%, to actually grow the balance sheet. And so that will be a net addition simply by tying that balance sheet, which has very low risk-weighted assets, to fixed income financing and equity financing, which are very profitable activities for the bank. So everything we're doing incrementally is obviously going to be at a higher return on tangible equity than our cost of capital.

## **Tushar Morzaria**

Michael, if I just round out your last question on the mortgages. We like the mortgage business a lot and as you know, we've grown the book by £2 billion in the quarter. It's very much in our staple, sweet spot for us – relatively low loan-to-value products and margins that are accretive to our back book. We still feel it's pretty healthy as a returns matter and benchmarks well to the historical margins that we've been generating.

So the net interest margins that we quote obviously will have a small effect on that, but we would still expect on an underlying basis – I'm stripping out ESHLA here – net interest margin for the full year to be above the 360[bps] mark.

## **Michael Helsby**

And it looks like fees in Q3 jumped in the UK bank versus Q2?

## **Tushar Morzaria**

Yes, there are lots of ins and outs going on there. There was a debt sale going through and that would have some fees associated with it as well which would impact those numbers. There's nothing else I would call out as significant there, Michael.

## **Jason Napier, UBS**

Good morning. If I take the midpoint of the cost target for 2019 and assume, just for argument's sake, a 58% cost: income ratio, it looks like forward revenues of about £23.7 billion. But if I use consensus impairments and below-the-line other equity costs I'm still on 8-8.4% RoTE. So I wonder whether you might be able to share any information on whether you're assuming preference share tenders, any more efficient items below the line, or how we can get to 9% using the guidance that you've provided today?

Secondly, Non-Core is obviously back in the Group now. I just wonder whether you could give us a 9 month revenue drag or some colour around what sort of drag for the full year we might be looking at? And whether that's radically different in 2019, just as one of the components of that revenue growth that I think you're signalling.

Then lastly just on models; from an impairment and an expected loss (EL) perspective, there've been some pretty costly adjustments through the P&L and in the net deductions from CET1 over the last 12 to 18 months. I just want to know whether you'd be able to provide comfort on whether the workstream that's been going on there is complete, and whether we should expect perhaps a less lumpy evolution of things like EL and the P&L impairment line?

**Tushar Morzaria**

In terms of modelling 2019 financials, I don't want to add more than the guidance we've already given out. I haven't seen your models, obviously, but I'd encourage you to just check things like the tax line and the amount you've got for other equity [instrument costs]. I'll let you have your own thoughts about what you make of impairments for that period but I won't add any more than what you have.

We feel very comfortable, in the way Jes has laid out, that the ambition that we have is very realistic and very achievable. Perhaps behind the scenes with our Investor Relations [team] you can just check models and they can maybe point to some of the things that you might want to look at a bit more closely.

**Jason Napier**

Just on tax, what is the thinking on forward tax?

**Tushar Morzaria**

I'm not assuming any difference in tax rates or tax assumptions. So our marginal ETR at the moment on a full year will be in the very low 30s, or somewhere around there would probably be a reasonable planning assumption.

For Non-Core revenues for this year, no change from the guidance we've already provided, very much as we had at half-year, so I won't add anything to that. We would expect a meaningful run-off into 2018 and 2019. And of course these were negative revenues, diminishing quite rapidly. Again we haven't given explicit guidance but you should expect very significant run-offs of negative revenues.

Then finally on models, you may have noticed already that one of the moves that we had against our capital line for this quarter was an up-tick of the expected loss over impairment. That was the result of a model change in our business banking area. That, of course – expected loss over impairment – will be different, it'll disappear as we apply IFRS9 and that's reflected in the guidance we gave on IFRS9.

I'm not expecting any other meaningful model changes in the impairment line. We're already focused on IFRS9 and obviously that gets implemented in the next few weeks so it should become, from that perspective, much more straightforward. Of course IFRS9 is a new thing for all of the UK banks and I guess as everybody discloses where they are and how they're thinking about this. I'm sure you'll have plenty of questions around the consistency of application and various assumptions that we're all using but I guess you'll get more information on that from all of us next year.

**Jonathan Pierce, Exane BNP Paribas**

Good morning both. I've got two questions, the first is on these return targets again. I'm sorry to press you a bit on this, but clearly the returns are based on an equity tier one ratio of about 13%. Obviously then we have to back out what the TNAV is associated with that 13%. At the moment there's about a £4.5bn - £5bn gap between your equity tier one capital and your tangible accounting equity. I just want to make sure I understand what you're assuming the gap will be by the time we get to 2019/2020? You've said the excess expected loss [over impairment] will disappear, understandably. The cashflow

hedge is another big part of that gap; at the moment its £1.2bn but that's amortising out at about £500m a year, so are you assuming that gets close to zero as well by 2019/2020?

Then the other big one is PVA. I'm really just trying to get a sense as to what you think that gap ultimately will be between equity tier one and tangible equity so we can properly ascertain what these return on tangible equity targets are actually being based on?

The second one relates to slides 36 and 37 in the appendix, because I note with interest that you're suggesting your stress test buffer could be in the region of 4.5-5%. That's encompassing not just the capital conservation buffer and the countercyclical buffer, but your previously stated management buffer as well. I'm just trying to clarify here; are you saying that in the event that you were to suffer stress-test losses of that order of magnitude and therefore have to hold a stress-test buffer of 4.5-5%, you're willing to not hold any additional management buffer on top of this and therefore risk dropping into that PRA buffer in the event you had a bit of volatility in the equity tier one [ratio]? I'm just trying to understand your thinking on that.

#### **Tushar Morzaria**

For the difference between TNAV and regulatory capital, rather than go through individual lines that reconcile the difference, it may be more helpful for me to tell you that overall we're not assuming a meaningful reduction at all in our tangible net asset value. If anything we would expect it to grow from this base. It gets very complicated modelling the reserve line items between here and tangible equity. So rather than get into that I'd probably just let you know, at least for our planning purposes, we're assuming tangible book going up from here.

#### **Jonathan Pierce**

Is that what the 9-10% targets are based on then? Is it based on TNAV as we are, and maybe growing a bit?

#### **Tushar Morzaria**

Correct, yes. Regarding the stress test buffer, the way I think about it is the following; our current capital base is 13.1%, our systemic risk reference point would be around 8.3%, so I guess the way I think about it is that we could absorb the best part of 500bps of stress drawdown and still be above our systemic reference point. When I look historically, we try to calibrate all of this to historical experiences of a stress draw in the annual banking stress test, and we haven't really got anywhere close to 500bps. So at this stage I think holding about 13% capital should be adequate to withstand any of the most significant stresses that we've had. If history and experience changes, we'll adapt accordingly, but at this stage I'm not anticipating needing to do that.

#### **Andrew Coombs, Citi**

Thank you for your comments thus far clarifying the tangible NAV and tax. I guess the last line to focus on therefore would be the loan loss line. I think the previous management team used to guide to a through-the-cycle loan loss charge of about 75bps but that was prior to the Africa disposal so I'd be interested to hear what you're thinking of through-the-cycle loan loss charges?

The second one would just be drilling down into the Markets result and the revenues. On fixed income, if you strip out the Non-Core adjustment and the treasury gains, it looks to be broadly in line with US peers. The Equities results you mentioned specifically and it has significantly underperformed the peers. You said it's because you're too reliant on US flow derivatives where volumes have been very low, so could you perhaps elaborate on what proportion of your Equities revenues are due to US flow

derivatives and also how quickly you think your investments in electronic and prime can pay dividends on that front?

### **Tushar Morzaria**

I won't give specific guidance on the through-the-cycle loan loss rate. We're currently running at about 66bps. Everything that we can see at this stage suggests a continuing benign credit environment. These are short-term indicators. If you want to get a sense of how we modelled the future environment – because obviously we are quite sensitive to things like the change in unemployment, GDP assumptions, house price appreciation – I think I'd just refer you back to somewhere around July and August, economists' consensus forecasts and those are the assumptions that we took.

Somewhat of a mild slowdown is probably the way I'd characterise it – how that consensus looked – but I wouldn't give out a through-the-cycle number, I'd just let you look at that and form your own conclusions.

### **Jes Staley**

You're right, on the FICC number we would be down – if you take those two adjustments – about 25%. That's in the middle of the pack of the US investment banks. Clearly I think everyone is feeling the impacts of low volatility and low volumes, but on a comparable basis the FICC was in line.

Where we were surprised on the downside was in Equities, and primarily flow derivatives. I won't give you an exact percentage but it is a meaningful number for us. We lost some personnel and there were some trades that didn't go our way. We have put a new team in place.

I would say, away from that, on the equity cash commission basis we actually gained market share in both the US and the UK, and on the LSE we're number two now. Remember that business was almost brand new to us six years ago.

In equity financing we actually had a very good quarter there. Our balances grew 28% year on year, and that again correlates to putting more balance sheet to work and the impact that can have on your equity and fixed income financing.

In electronic trading we are rolling out new capabilities in terms of our pre-trade technology and platforms across the markets business. I think we have a journey to go through. I think it's something measured in quarters, but as we've seen today in the rates business, we have an immediate impact where we put our new platforms in place, and we do believe that we can regain the position we had in the Equities line overall.

### **Robin Down, HSBC**

Sorry to come back to the RoTE targets, but what assumption are you making in terms of the £3bn RCI? Are you assuming that that gets called in June 2019 and flows through your numbers?

Second question on the US side, obviously we've got Trump talking about tax cuts. I was wondering if you could tell us what percentage of your profits in 2017 so far have come from the US side, so we can try and get a more accurate sensitivity there?

Then a third one; you've kindly given us the sensitivity to the 100bps rate increase across the yield curve. If we have a 50bps increase in rates, could you give us a ballpark year three estimate for that? I'm assuming we can't just simply halve the 100bps because the structural hedge obviously wouldn't work through in quite the same way.

## **Tushar Morzaria**

Yes, we do assume that the RCIs ought to drop out in 2019. I've got to be a little bit careful here, I don't want to pre-guide to some call of an instrument, which you wouldn't expect me to do, but generally speaking you'd expect us to behave economically. So I imagine there's no big secret there.

In terms of our US profits, we are profitable in the US so any cut in headline corporation taxes in the US is definitely beneficial. We haven't given profitability by currency, and I don't really want to do it on a call like this, but there's probably enough information out there. You can look at our IHC filings, our Y-9C report that we file with the Fed and various other statutory filings that maybe Investor Relations can help you with, so you can get your hands on that.

In terms of the rate increases, just to remind everyone, we haven't assumed in our baseline forecasts too much on rate environment at all. We only put this sensitivity out because obviously as we're getting closer to next Thursday, I guess there's more of an expectation that rates may move.

If we only get, let's say, a 50bps parallel shift upwards, it wouldn't be anything cleverer than approximately half. There's a little bit of complexity, as you point out, given the shape of the curve, but for planning purposes you could assume approximately half is good enough.

I would just caution though that this is a parallel shift across the entire curve upwards. I'm not saying that that's the rate environment we would get at all. I'm sure it will be different to that, so use these numbers with caution.

## **Jes Staley**

We'd really like to see gilt yields similar to the US yields right now.

## **Ed Firth, KBW**

Can I ask a couple of questions about the strategic direction of the Group and how you manage that? It's really about the additional leverage that you're giving to the wholesale business, which I guess goes to the whole theme of more and more resource and attention going into an area that continues to underperform. Do you have a timescale on that? If you're giving the £50bn, is this for three months, is it for a year? At what point, if the performance continues at the current level, do you say, that's enough and perhaps it's time to take some resource out of that area?

## **Jes Staley**

Again, we have gone through an enormous restructuring of this bank in the last couple of years in order to settle on our strategy of being a transatlantic consumer and wholesale bank. We have massively simplified this bank's platform. We've reduced its headcount by 60,000 people, and very importantly we have resolved our capital issue – even just in the last couple of years we've moved from an 11% CET1 ratio to over 13%. A lot of that has been on a dramatic reduction in risk-weighted assets and balance sheet allocated to the investment bank. We have made an extraordinary cut. Now that we've got to our end-state capital levels, the strategy is going to be prudently grow our businesses across the overall platform of Barclays as a bank, but giving some capacity to the investment bank, particularly around balance sheet, because we know we can drive double-digit returns with that incremental balance sheet in terms of returns on capital.

As I say, the £50bn [of leverage] is a number that we've given the IB to deploy over the next couple of quarters. There is actually capacity to go beyond that, and this is not punching up risk-weighted assets. As we've said, CIB RWAs will stay flat – that's in the plan to achieve that 9% 2019 RoTE target. So it is primarily balance sheet that we'll be using in addition to the reallocation. We're not going to change our strategy. We've been focused on restructuring the bank. Now that we are where we want to be, as of

two months ago, to take a quarter to question the strategy, which is predicated on being a diversified consumer and wholesale bank, just makes no sense in our view. You cannot cut yourself to glory, and those that have tried to do that will ultimately fail.

### **Ed Firth**

I suppose my only observation would be that you're already making an 18% return in the UK business, and your interest rate sensitivity suggests that that's going to jack up sizably in your opinion, if interest rates go up. You're talking about another billion of revenue, so you'll be getting up to mid to high 20s. Therefore the disparity between the performance of your areas in your Group is going to get bigger, not smaller, in the short term?

### **Jes Staley**

Having lived through a variety of economic cycles while working at JP Morgan, there is a cyclical relationship between consumer businesses and wholesale businesses. So right now, sitting with very low interest rates but very, very low volatility, an unsecured consumer loan book is going to generate a significant return on capital. I don't believe we have solved economic cycles and when you have a downturn and unemployment goes up, you will see an immediate impact on the profitability of an unsecured consumer loan book.

But when that downturn happens, I assure you volatility's going to go up significantly and alongside that will be the profitability of your wholesale businesses. That's happened through every economic cycle that I've lived through.

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

I have two questions, the first one on Brexit, and the second one to follow up on your comments earlier on Equities. Barclays is a global investment bank but the only one which is headquartered in the UK, and as such I think it doesn't take much analysis to conclude that Brexit should have, in principle, a disproportionate effect on Barclays' business relative to its peers. I was just wondering if you could comment in this context, if you're putting any of the revenue weakness we are seeing in the IB, down to some clients moving away business from the UK-domiciled banks to, say, Eurozone or US banks ahead of Brexit? Or do you think the weakness currently is due entirely to franchise underperformance?

Also further to that, how do you think Barclays successfully can compete in investment banking in a post-Brexit world? Why would certain clients choose Barclays or a UK-domiciled bank, say, over some of the more international or Eurozone peers for that continental business, and do you expect potential Brexit-related impact on your IB franchise going forward?

The second question, just to follow up on Equities; global peers have reported Equities roughly flat year on year. Barclays' Equities result today is down 25% year on year and 20% quarter on quarter, significantly underperforming the rest of the street. I hear your explanation on the dependence of flow but struggle somehow to accept it as the whole or sole reason for that underperformance. Was there anything else you could call out which could have gone wrong in Equities, say an outsize trading loss, or do you think this marks franchise loss in some specific areas? And are you concerned that this could continue at this pace of franchise loss?

### **Tushar Morzaria**

In terms of Brexit, do we feel that that's having an impact on our client business? I'd say, actually, no. Certainly look at our fee business; we've had a record nine months year to date, we've got number one fee-sharing in UK and obviously that's part of Europe, some cross-border activity there. We have a

record fee share for us at least in debt capital markets and leveraged finance so that franchise has held up very well.

When I look at things like foreign exchange, for example, electronic foreign exchange, we called out our FX business did very well. Our volumes in electronic foreign exchange were up 25% last quarter versus the year before. It's quite interesting because you remember the year before that was on the back of the EU referendum, so we're not seeing any slowdown in client activity dealing with us given our domicile. And we're not really expecting that to be an issue as we restructure our business to ensure that we're compliant with rules and regulations post Brexit.

I don't think it actually affects us any more than others. I'd argue in some ways that it's perhaps a little bit easier for us to restructure our business to be compliant – against some of our peers who probably weren't as present in continental Europe as a booking location in the way we have been – through what is already a licensed bank in Dublin that's operational with its own board and various other requirements that it will require.

So I'm not sure Brexit's an issue for us. I'd almost, at the margins, say potentially helpful rather than unhelpful.

### **Jes Staley**

I may just add to that, we are one of the largest underwriters of debt capital markets for issuers in the Eurozone and a major primary dealer for almost all the sovereign credit in the Eurozone. All we've heard is they very much are encouraging us to stay completely engaged in Europe. If you look at the reactions to Brexit from the banks, most of the US banks have talked about a far greater impact in terms of their London operations than we have. I continue to believe that our counterparties across this industry do not want to be 100% concentrated with US firms, and so there is a role in the global capital markets for non-US players. And we intend fully to have a significant role there, and you see it in a lot of our businesses. As Tushar talked about, our fee business is at a record level through the first nine months. I think there's no indication of people pulling away from us and no indication that Brexit will disproportionately penalise Barclays versus any other bank.

### **Tushar Morzaria**

Moving on to the second question, the Equities business, yes, we're disappointed with the result. I don't think there's any permanent degradation, well there is no permanent degradation of the business. The real driver for this quarter we did have – and I think other banks called it out – a weakness in equity flow derivatives. Volumes have actually held up okay but the ability to capture the bid-offer on those volumes was quite tricky and that's a larger part of our business relatively than it is others. I think businesses that did really well, like financing – our financing balances are up quite a bit – is a relatively smaller part of our business than others and we've got a new team there as well. Jes called out that we've made a very significant management change in the Equities business and we feel pretty good about where we're going to go from here.

### **Fahed Kunwar, Redburn**

On the investment bank, if I heard you right, I think you said the marginal RoTE on the corporate business was mid-single-digit and the marginal ROTE on the business you're looking at investing in is now greater than your cost of equity. So if that's been the case why hasn't this reallocation happened before? What was stopping it from happening before? Because we're talking about flat RWAs, and it can't really have been a capital issue.

On UK margins, taking out ESHLA you're [NIM was] 357bps for the quarter, which is still quite a decent tick-down from the second quarter. And you're looking at that increasing to 360bps in 2017, so I think

your deposit costs – you've said this before – haven't got much room to go down. Are you assuming as well as the base rate rise, that the end of TFS means that mortgage rates start to go up, considering the pressure we've seen on that in the last few months?

### **Jes Staley**

To be very clear, the corporate loan book is well north of £60bn. There is a part of that loan book where the returns on tangible equity for the specific credit are mid-single digits and that is what we are looking to either get those corporate clients to pay us more for the credit that we're extending, or to take the credit back.

Then to be very honest, the reason why we are focused on that now compared to where we were focused on before is, we reorganised the bank mid last year. The corporate business was part of our retail bank and I don't think anyone has asked a question about the return on tangible equity of Barclays UK recently. Now that it is put together with the investment bank, we're going to maximise the return on risk-weighted assets across that business platform.

### **Tushar Morzaria**

On your question on UK margin, the very small dips we had in Q3, principally it was actually driven by – I called it out in my scripted comments – you may not have spotted it but we had some remediation in our collections area. That flows through our net interest income line. So just the formula for calculating NIM, NII over assets, was affected by that. On a full-year basis that's come and gone now, so on a full-year basis we still expect NIM excluding ESHLA in the UK to be above 360bps. We've not assumed any rate rises at all and we'll see what happens on that front.

### **Chris Cant, Autonomous**

You talked previously about being through the belly of the restructuring or strategic reform costs, I think. But your guidance today implies quite a big step up in spend there into Q4. And during your remarks, you talked about that only really dropping away in the second half of next year. I'm just wondering if you can give us some colour around what the total structural reform spending is this year, and what it will be next year, so we can get a better sense of what's happening with underlying costs.

The second question; in your slides, you call out an assumed normalisation of market volatility as part of the improvement in the CIB return on tangible equity. I was just wondering, can you give us some more information around how much additional volatility you're assuming here? If I think in terms of global IB fee pools, 2016 was a bit of a blip on a continued down-trend over time. So are we assuming we go back to 2016 levels of volatility, or halfway back to that? I'm just trying to get a sense of how much that's driving the improvement.

### **Tushar Morzaria**

In terms of SRP costs, we gave the budget out of about £1bn, which is still correct and we're spending the shape of that. We're probably literally in the peak spend now and you can imagine – unfortunately it doesn't get talked about too much but for us – this was a very significant change, creating a UK bank essentially from scratch. Barclays Bank PLC was our main trading entity and we're extracting from that our UK operations, and incorporating a brand-new bank called Barclays Bank UK PLC, as well as our Service Company.

So what does that mean? It means we've got to move all our customers and accounts, and actually give a whole load of new sort codes associated with that, moving people around our branch infrastructure, moving internal employees, tens of thousands – a third of our internal employees – into our Service Company. That's a brand-new legal entity that's up and running. We're closing the books on that basis

for the first time this time round. I won't bore you with all the nitty-gritty that needs to go on with this but we're in peak spend.

I think the point of your question is what happens into next year. That spend will continue into the first six months of next year. We become operational around about Easter time next year, and at that point it starts ebbing away. As Jes talked about on the call, I think as that starts ebbing away then that will drop out, as will further gross cost efficiencies. And then the whole idea is to recycle that back into some of our interesting growth opportunities.

For example, one we haven't been asked about, but worth throwing out there is US cards. You can see the J-curve that American Airlines is having; Uber will have a similar thing; and we expect to grow those receivables. That's good investment spend that we like and there are various other examples of that.

Merchant acquiring we haven't talked about much as well. We rolled out our new merchant acquiring platform which we think gives us the best middle/back office acquiring platform, probably at least in the UK if not in Europe and elsewhere. That's a growing market, spend is up to 10% year on year already, and our ability to monetise that spend goes up with that platform so there's a whole host of things that we're going to see some good stuff coming out of.

#### **Jes Staley**

I think on the market volatility, obviously our plans are predicated on volatility recovering from the very low levels we saw in the third quarter and that everyone on the Street experienced. Recovering to levels that we saw in 2016 and 2017 are still modest by historical standards, so I think we're still looking at a modest degree of volatility with volumes in relation to that, and not betting on recovering to the sort of levels we saw immediately post crisis. I think if you wanted to model it, it would be more around what we were seeing in 2016, the beginning part of 2017.

#### **Chris Cant**

That's helpful. In terms of Q3 being very soft, do you have any comments on October trading, please?

#### **Tushar Morzaria**

I'll just give you my stock answer. The answer's no, and you shouldn't take that as good or bad. The only reason I say no is that, as you guys will be aware, in the UK if I give trading guidance now on this call, I'd have to accompany it with a stock exchange announcement, and we just don't do that, so 'no comment', but don't take that as good or bad, but thanks for your question.

#### **Tom Rayner, Exane BNP Paribas**

The first one on US cards; the £168 million loss relating to that asset sale; can we read anything into the underlying credit quality of the US books on that, or is that very much a specific issue?

I have a second question just on the rating of Barclays. If you look at Barclays, not just recently but over a number of years, I think it's fair to say that the discount to book value is usually put down to too much capital being invested in a business where there are volatile earnings. And typically you don't make your cost of equity through the cycle – in other words too much equity invested in the investment bank.

I just wondered firstly, do you agree with that assessment? If you don't, maybe you could talk about where the market is wrong now. Is it failing to understand the opportunity that you're putting forward to boost returns via these various balance sheet optimisations that you discussed, or something else? I'm just trying to understand what your thought process is around the overall CIB strategy?

## **Tushar Morzaria**

In US cards, that impairment is a one-off. The portfolio that we sold in the earlier part of the year, it was one of the lower-rated parts of our book, the least creditworthy, so no impact to ongoing business. In fact I'd say the credit quality of the underlying business is actually pretty good. There was a slight up-tick in delinquencies from Q2 to Q3, that's quite seasonal. You've got the US tax season in Q2 so it tends to be relatively one of the more benign quarters in the year. But flat year on year so we're pretty constructive on the US environment.

We're generally quite cautious on these things and we monitor it carefully, and our indicators are telling us that there's no significant stress in there. But it's something we'll continue to monitor. So no, the underlying quality of the book remains very healthy and the risk-adjusted returns are extremely healthy, and we'd like to grow it on a controlled basis.

## **Jes Staley**

Yes, I'd make three points. One is, I encourage everyone on the phones to read the report that was published last week by Standard & Poor's in terms of our credit ratings. It updated a number of our credit [ratings] and gave the same credit [rating] to Barclays UK and Barclays International that it gives to the Group, which is a terrific outcome for us. Very importantly, in giving the credit rating for Barclays International, they focused on the diversified business model as a key component to the credit strength of that business, which is very much a fundamental tenet of our strategy. So I encourage you to read that report; I think it would be very helpful.

In terms of the CIB and how one trades, what I would say is if you look at the US universal banks, which are the five largest banks now, they're all trading well north of book value. In most cases they have investment banks that, I would argue, if you carve them out, are generating high-single-digit returns and account for a very significant percentage of their revenues and earnings.

In fact, people like Morgan Stanley and Goldman Sachs are much more levered to their investment banking platform than Barclays is, by quite some measure, and they are not being penalised to the degree of business that they've got. Quite the contrary, I think the market has got quite comfortable that the volatility of the US banks is down significantly and therefore they're trading well north of book value. The main difference is they are right now returning 100% of their earnings in stock buybacks and dividends. And I think it's that return of excess capital that has very much driven a drop in their cost of capital and correspondingly where their stocks trade vis-a-vis book.

My final point, what's important about Barclays, I think, is to recognise where we are in the recovery of this bank, post the financial crisis. This bank went into the financial crisis in 2006 with the second-largest balance sheet in all of finance. The restructuring, given the size of that balance sheet and the level of capital we had, has taken a very long time. We only completed the restructuring of this bank a couple of months ago, so there is a difference in timing as to where the US banks are versus where we are.

I don't think it's a business model issue. I think it's a timing issue of the recovery. We've closed Non-Core; now we're focused on driving earnings and we have all the instruments at our hand to deliver the same level of earnings that you see coming out of the US banks, and that's what we're going to do.

## **Tom Rayner**

Just very quickly on a follow-up, do you think there's any element of regulatory advantage in favour of US IBs over Europeans at the moment? Because that's something that's often put forward as a reason for why market share has been shifting a bit away from Europe to the US investment banks. What are your thoughts on the regulatory environment?

### **Jes Staley**

I think the regulators, by and large, have done a reasonable job of trying to keep a level playing field. They haven't got everything right, as you see in the negotiations with Basel III, but I think, by and large, the regulatory environment, both sides of the Atlantic, can't complain about one thing and not complain about another. My own personal view is one of the big differences between the European banks versus the US banks coming out of the financial crisis, is that capital markets are a multiple bigger in the US than they are in Europe, and the capital markets driving the performance of US banks as opposed to their own balance sheets is much more significant in the US than in Europe.

The second component to that is, interestingly enough, on the back of Basel I, where the decision was that a AAA security posed zero risk, and therefore had no capital against it. The only regulated financial institutions that didn't fully follow Basel I were the commercial banks and the US Federal Reserve. They maintained leverage ratios, which is why to a large degree the European bank balance sheets got much higher as a percentage of their capital than the US banks, and consequently the recovery has taken longer.

### **Robert Noble, RBC**

Just a clarification on the interest rate guidance, the 100bps parallel shift, is that global? If it is, how is it split between International and UK? And then what deposit betas did you assume on those two scenarios?

### **Tushar Morzaria**

Yes, it's not guidance. That's probably way too strong a word, it's just a scenario. None of us are forecasting a 100bps parallel shift. Principally we're very anchored to the UK so think of it very much as a UK sensitivity. That's where the bulk of that impact will be from but please don't take it as guidance, it just gives you a scenario of what may happen.

### **Important Notice**

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

### **Forward-looking statements**

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and Section 27A of the US Securities Act of 1933, as amended, with respect to the Group. Barclays cautions readers that no forward-looking statement is a guarantee of future performance and that actual results or other financial condition or performance measures could differ materially from those contained in the forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'may', 'will', 'seek', 'continue', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'achieve' or other words of similar meaning. Examples of forward-looking statements include, among others, statements or guidance regarding or relating to the Group's future financial position, income growth, assets, impairment charges, provisions, notable items, business strategy, structural reform, capital, leverage and other regulatory ratios, payment of dividends (including dividend pay-out ratios and expected payment strategies), projected levels of growth in the banking and financial markets, projected costs or savings, any commitments and targets and the impact of any regulatory deconsolidation resulting from the sell down of the Group's interest in Barclays Africa Group Limited, estimates of capital expenditures and plans and objectives for future operations, projected employee numbers and other statements that are not historical fact. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. These may be affected by changes in legislation, the development of standards and interpretations under International Financial Reporting Standards, evolving practices with regard to the interpretation and application of accounting and regulatory standards, the outcome of current and future legal proceedings and regulatory investigations, future levels of conduct provisions, future levels of notable items, the policies and actions of governmental and regulatory authorities, geopolitical risks and the impact of competition. In addition, factors including (but not limited to) the following may have an effect: capital, leverage and other regulatory rules (including with regard to the future structure of the Group) applicable to past, current and future periods; UK, US, Africa, Eurozone and global macroeconomic and business conditions; the effects of continued volatility in credit markets; market related risks such as changes in interest rates and foreign exchange rates; effects of changes in valuation of credit market exposures; changes in valuation of issued securities; volatility in capital markets; changes in credit ratings of any entities within the Group or any securities issued by such entities; the potential for one or more countries exiting the Eurozone; the implications of the exercise by the United Kingdom of Article 50 of the Treaty of Lisbon and the disruption that may result in the UK and globally from the withdrawal of the United Kingdom from the European Union and the success of future acquisitions, disposals and other strategic transactions. A number of these influences and factors are beyond the Group's control. As a result, the Group's actual future results, dividend payments, and capital and leverage ratios may differ materially from the plans, goals, expectations and guidance set forth in the Group's forward-looking statements. Additional risks and factors which may impact the Group's future financial condition and performance are identified in our filings with the SEC (including, without limitation, our annual report on form 20-F for the fiscal year ended 31 December 2016), which are available on the SEC's website at [www.sec.gov](http://www.sec.gov).

Subject to our obligations under the applicable laws and regulations of the United Kingdom and the United States in relation to disclosure and ongoing information, we undertake no obligation to update publicly or revise any forward looking statements, whether as a result of new information, future events or otherwise.