Barclays PLC Q2 2016 Results

29 July 2016

Analyst call Q&A transcript (amended in places to improve readability only)

Jonathan Pierce, Exane BNP Paribas

Can I ask a couple please? The first is on capital and capital plans, and actually the first part of this question is just to check on the upcoming disposals. Obviously you've already taken some impairment hits against France, the Italian retail business I seem to remember, not pushed the RWA reductions through though obviously. So when you talk about the 15 to 20 basis points uplift on equity tier one to come, on slide 17. Just to make sure, that's from where we are today, post the charges that have already been taken, right?

Jes Staley, Group Chief Executive Officer

Yes. Anchored by the sale of the index business to Bloomberg, sale of the Asian wealth management business etc. That's what tends to be driving those numbers.

Jonathan Pierce

Okay, great. This all seems to suggest that capital build is likely to continue over the course of the next few quarters at least. And the crux of my question is what can we expect you to be doing with that capital? Obviously back in May you called that first of four US Dollar equity accounted preference shares. Given what's happened post the 23rd of June, is your mindset to wait a little while and see how things pan out before using some additional capital on the other three US Dollar preference shares? I appreciate it's difficult to pre-announce these sorts of calls, but clearly if we want to look at consensus, and indeed your first half number, there's still a £300-400m post tax drag on group attributable profit coming from those four bonds. And it seems to me that you could extinguish over half of that at a cost that is less than the proforma uplift on these second half disposals. So could you give us just a sense of how you're thinking on capital management over the next three quarters? Thanks.

Tushar Morzaria, Group Finance Officer

Yes, thanks Jonathan. You sort of alluded to it, it's difficult for us to pre-announce anything, and you wouldn't expect us to do that. But I would say we're acutely aware of not only growing our capital base, but looking to balance that with growing our earnings base as well, and you've seen us do a little bit of that through capital buy backs, including one tranche of those Dollar preference shares.

So although we won't give any pre-announcements, it's something that we constantly look at to try and balance capital accretion and earnings management. We still have a little bit of a way to go in terms of capital build, probably another 100 basis points or so at a consolidated level. We've got good time to do that, and we've got plenty of levers to pull, so we'll keep you posted when we go through the quarters, but we're looking to balance both that accretion as well as the need to generate earnings.

Jonathan Pierce

So it doesn't sound like it's off the table as you wait and see the impact of the vote to leave the EU though.

Tushar Morzaria

No. It's not off the table, Jonathan, but likewise as you can appreciate we're not going to pre-announce anything either. So I understand where you're going, but the Brexit vote hasn't changed our view necessarily of what we would have done anyway.

Jes Staley

But your research on that was good.

Jonathan Pierce

Thank you. Can I just ask my second question, on the structural hedge. I appreciate the guidance you've given for the second half on margins etc., but clearly the structural hedge is a longer term issue. Firstly just to clarify, the £1.4bn of annualised contribution, that's a net contribution, [net of] LIBOR, is that correct?

Tushar Morzaria

Yes, that's right. That's the net feeding into our NII.

Jonathan Pierce

Okay. And can you give us a sense of how big the hedge actually is? So the £1.4bn as a yield, or the total notional size of the hedge, so we can get a sense as to what the at risk earnings are here? And maybe if I can press you a bit more, how much of this hedge is likely to roll each year over the next couple of years. Thank you.

Tushar Morzaria

You're obviously asking because we haven't called it out explicitly. So I won't give you a precise number. Think of it as a notional greater than £100bn, to give you some size of the scale. In terms of the duration, we tend to hedge the equity duration to about five years, and our product hedges are shorter than that. So I won't give you a precise number on the average duration, but it will be, let's say, starting off from five years and bring it back in a little bit.

Jonathan Pierce

Can we read anything from your NII sensitivity table that I think you've constructed in a slightly different way this time; I think it is page 51 or something of the release. Can we read anything from that into how the structural hedge contribution may reduce moving forwards?

Tushar Morzaria

Yes, it's quite hard to see directly in there how the structural hedge will roll off. We are rolling our hedge, as you'd expect us to do. It's a hedge, so we continue applying it. It really depends on the shape of the curve as the caterpillar rolls down. In terms of the interest rate sensitivity disclosure, you're right. The one thing for those that may not have picked up on it yet – and Investor Relations behind the scenes can spend a bit more time if it's helpful, it does look at forward rates as they're currently implied from the market, so the market's already implying a 25 basis point reduction in short term rates, so that feeds through into the forward.

So it's a further shock downwards in forwards <u>from there</u>. So the 25 and the 50 [scenarios], the first 25 probably already implied rate cut gets you to the zero boundary quite quickly. But you can't necessarily infer directly from there, Jonathan, the impact of the structural hedge roll in the outer years.

Michael Helsby, Bank of America Merrill Lynch

On CIB, I was wondering if you could tell us what drove the £135m quarter on quarter reduction in costs, and also if you can help us quantify what you think the cost opportunity is within CIB. I'm conscious that, Jes, you've been there a "long time" now, relatively, so you must have more of an idea in terms of what you want to do, and this is so important in improving the ROE. And then slightly linked to that, I was wondering if you'd call out within the Q2 revenue, when you're looking back and you're doing your Q3 numbers, are you going to be saying: "Oh but of course there was an abnormal Brexit revenue in this CIB income line". So that would be question one. And if so, how much?

And question two is just related to your view on the mortgage market, and I'm conscious that you've got an extremely low SVR book, It's only about 2% of your mortgage book, but I also notice that you've reduced your pricing post-Brexit. So I was just wondering if you can talk about your appetite to grow in mortgages and, if you saw any slight increase in arrears or HPI started to fall, whether you'd look to change or increase your prices, which is something that one of your competitors thinks might happen. Thank you.

Jes Staley

The first on the costs, we are encouraged by the CIB costs in the first half of the year and the trajectory of that. Cost as an investment bank is basically driven by three factors: people, technology and real estate, and I would attribute most of the improvements in terms of our people cost. Our head count in the CIB for the first six months of the year is down roughly 10%. So we feel good about that, but we know we have a way to go. As I've said on a couple of occasions, we're looking for something like 300 basis points or so of improvement of costs as we go down the line, of which part will come from being much more efficient on our core operations and technology platform, and Paul Compton and his team are working very hard on that.

The other thing I would say, and we've talked about this before, is given the accounting treatment of our deferrals, we have very little flexibility in the current year to change the performance cost line in CIB. But as I said in the first quarter, we are very attuned to what's going on in the market and have seen what's happening to the bonus pools around Wall Street, and we're going to reflect that. So when we do the accruals for 2016, we realise that to justify the strategy of being a tier one investment bank we've got to improve the profitability over what we demonstrated last year for sure, and part of getting there will be the performance compensation line.

In terms of the revenue, the Brexit vote was like three days before the end of the quarter, so the second quarter's performance by our investment bank was just very much driven by I think the focus we have on the business. I think from Credit to Advisory we did extremely well in the second quarter. I think on a market share basis we're in good shape, with reference to the US Investment Bank as Tushar said. On a Dealogic basis we're the number one performing European Investment Bank now, and let's see how the third quarter goes. We like our pipeline, but obviously the nature of the markets will dictate a lot how that top line revenue is. But we feel very good about the 9.5% performance of CIB in the second quarter, but obviously over time I want to get that number into double digits.

Tushar Morzaria

Moving on to your question on mortgages. What we obviously try and do is maximise risk adjusted net interest income, so our pricing decisions and our credit risk is really driven by that. We tend to have a relatively conservative risk profile, and you can see that in some of the mortgage segments that we operate in. Where we do drop pricing obviously when swap rates lower, that influences our pricing. I would say that where we have dropped pricing, it's not in the high volume products. So sometimes it gets probably a bit more publicity than really makes a difference to our business.

In terms of arrears, we haven't really seen any stress in our credit books as a consumer retail matter. Yes, it's only a month after the vote so probably a bit early to speak, but we would continue to evaluate maximising risk-adjusted net interest income, and we're not at all afraid of maintaining pricing to achieve that objective. So I can't say precisely whether we're going to move pricing up or down. Obviously that will be difficult for me to say, but our objective is to maximise NII and our risk adjusted base, and we think we've been quite successful at doing that.

Chris Manners, Morgan Stanley

Good morning. Two questions if I may. The first one was on the Investment Banking revenues. Maybe if you could help us understand a little bit more on what's going well and not so well and in some of the mix, because I guess in Equities year on year it did look like a weak performance: US up and you commented on the European and Asia parts. Could you just give us a flavour for what percentage of your revenue comes from US, Europe and Asia in Equities, and so that might help us model that going forward.

The second question was just on leverage exposure. Looked to be quite a big increase, up 12%, and you're down to a 3.7% common equity tier one leverage ratio. Is there anything funny in there, or would we expect that to continue to build with the CET1 ratio from here? Thanks.

Jes Staley

Thanks Chris. On the IB revenue, I think we're in a very good place – across Credit, Rates and Currency. If you look at what we've got in the leveraged finance space where I think we're solidly at two or three right now, I think we've done very well with the sponsor community. And then across investment grade high yield our underwriting has been quite good, and so I think our focus on our issuing clients is paying across that space. So we feel very good about that from the gains and market share that we have.

Vis-à-vis Equities, we talked about Europe and Asia. Asia, we closed our cash equities business as part of the restructuring that we announced on March 1st. That clearly had a pretty significant impact. Then we did change some of our product mix after a strategic review of Equities, which didn't affect our return on profitability of that business, but did hit the top line. The only guidance I think that we've given vis-à-vis US versus non US is for the IB overall, where about 60% of our revenues come out of the investment bank in New York versus the IB in Europe and Asia. So that's a rough look overall for the IB.

Chris Manners

Thank you. That's helpful.

Tushar Morzaria

On your question on leverage exposure. We grew our leverage exposure somewhat deliberately as we went into the referendum vote, running a much greater liquidity position, so held a lot more cash on our balance sheet to make sure we were very well protected there. And that worked out very well for us.

So quite happy to, if you like, increase leverage exposure for those regions. Also there's a currency effect in there, and we hedge our CET1 ratio broadly for currency moves. You can either hedge your leverage exposure, your book value, tangible book value, or your RWA. We tend to try and manage our RWA, so therefore leverage ratios can be vulnerable to foreign exchange moves.

And then finally of course, it comes back to Michael's question earlier. There was a flurry of activity in the last week post the vote, so increased settlement balances and related trading activity. Over time we should just expect it to be dragged up alongside CET1. We're not near any minimums or anything like that. We're quite comfortable with leverage ratios at these levels. But you should expect to see it climb over time.

Chris Manners

Okay, so the leverage ratio should improve. Should we be expecting the total assets to come down? Just because I guess half on half, plus 21% total assets, £1.4 trillion looks optically quite big. Is that something we should expect to basically come back down again?

Tushar Morzaria

Yes, again it was a combination of these factors. Again, currency rates probably means it's difficult to compare, given the big sell-off in Sterling, and also probably higher than you would expect settlement type balances and trading, and obviously just because of the flurry of activity. So I think generally yes, but subject to things like currency rates which we don't predict.

Chris Manners

Fantastic, that's clear. Thank you.

Manus Costello, Autonomous

Firstly, I'm intrigued by this trend in the CIB where your RWAs seem to be going up but your average allocated equity seems to be going down. Versus the end of the year you're up 7% in RWAs but down 2% in terms of allocated equity. Can you just explain what's going on? Because obviously when you're talking about returns that has some impact. And my second question is about US cards. You talked about that business, but I note in the asset quality section you say there's been an increase in charge-off rates due to a change in product mix. I wondered if you could talk a bit about that please.

Tushar Morzaria

Yes. In terms of RWA in the CIB, that was really just currency moves that moved that up, and it doesn't affect our capital allocation, because as I say we manage that on a matched currency basis. There are also other things.

Manus Costello

If it's on a matched currency basis, Tushar, wouldn't the capital go up as well?

Tushar Morzaria

Yes, that's right. I was coming on to that. There are of course other things that go into the capital calculation of deductions against the capital base as well that do move around as well. So it's a combination of RWA moves and capital deductions. And we haven't changed our capital allocation methodology all year. What we tend to do is just increase the amount of capital we hold against our divisions in line with consolidated capital ratios when it moved up, and we tend to do that once a year, so it's the same as it has been for the last couple of quarters.

On the US cards, that business has had a really good run at the moment. In terms of impairment levels and impairment run rates, I think that was the point of your question, Manus?

Manus Costello

Yes. There's a statement on page 47 saying: Higher charge-off rates were driven by a change in the product mix, and I wondered what's going on there.

Tushar Morzaria

Yes. So we have two types of businesses there. We have our open market business, which is under a brand called Arrivals, and that's very similar to our UK business, though it's of course much smaller than our UK business. But that will typically have a slightly higher charge-off rate than our partnership business – things like the new deals we've just done with American Airlines or JetBlue, which are much more transactive businesses. So as we grow our Arrivals business, you'll see that our charge-off rate mirrored that growth, but both good businesses for us.

Manus Costello

But we should see a structurally higher level of charge-off and impairment going forwards, given that product mix.

Tushar Morzaria

Yes, but with appropriate returns, so looking at it on a cost of risk adjusted basis.

Manus Costello

Okay. Thank you.

Andrew Coombs, Citigroup

Good morning. First, I just wanted to come to slide 19, the Non-Core income guidance. There you've booked a £162m negative once you strip out the business disposals and ESHLA [Fair Value] in the first half. Your full year 2016 guidance is still for minus £800m-900m. I know you say that as the business sales complete the business contribution will fade away, but even if you were to put zero in there, if you look at the run rate from the first half you're still looking at £540m versus the implied guidance of substantially higher than that, or slightly higher than that. So just trying to square the circle as it were. Trying to work out where you expect the additional income losses to come through in the second half. So that would be my first question.

The second question is on passporting. Thank you for the useful colour you provided there, particularly with regards to the Investment Bank, but I just want to ask you is there any issue with respect to some of the Barclaycard franchises? For example, Barclaycard Germany that you mentioned, also the Merchant Acquiring business, some of the corporate lending book that sits within Europe. I believe you have branches for most of that business, so would you have to set up, or potentially set up, separate legal entities on the ground there as well? Thank you.

Jes Staley

With respect to the second question, Andrew, the German credit card business is fine, and it's not impacted by the passporting issue. The Merchant Acquiring business is actually done through our subsidiary in Ireland, so that also is not impacted by the passporting issues. So on the consumer side across Europe; I think we're fine with the current legal structure that we've got. So no impact there.

Tushar Morzaria

On the Non-Core income, the bulk of the spend from here will be focused around derivatives. Now it's an estimate on our part of what we think we can do on a capital neutral to capital accretive basis. We're quite relaxed to spend as much as we can, quite frankly, as long as we can do it on a capital neutral to a capital accretive basis, so we have the capacity to do that. The book's actually pretty well managed though, in terms of market risk. So we're not forced sellers in any way, and the derivatives market has actually behaved quite orderly, even post the Brexit vote. It's quite volatile, but in a very orderly way, and it's probably gone back to normal now I would say. So it's really the plans that we've had all year and we're just working through them. And you'll see us make progress quarter by quarter on that.

Andrew Coombs

Okay, that's very clear. And just on the corporate lending book, how much of that now relates to Europe?

Tushar Morzaria

We don't split that out specifically, Andrew, but again I don't think corporate lending will be significantly impacted by passporting. A lot of the lending is actually done by branching into these countries. You heard in my remarks, there's a number of alternatives that we can explore for passporting. It could be permissioning the branches, it could be through existing subsidiaries that we have, could be through third country access arrangements. Or it may be a combination of all three. The only thing I would say is that we also should just contextualise the size of passporting business; the bulk of our CIB doesn't require passporting so it's just a part of what we do and I wouldn't exaggerate the amount it's affected by.

Jes Staley

But as a strategic matter, being able to have a global platform is very important to us.

Andrew Coombs

Okay, very good.

Joseph Dickerson, Jefferies

I just have a couple of quick questions. Firstly, in recent quarters you've provided some colour around trading conditions post the calendar close; I was wondering if you would give us a sense of how trading has fared since the end of the quarter firstly? And then, secondly, can you just give us some flavour on what drives the model updates in cards for impairments so we can just contextualise that for our models? Thanks so much.

Jes Staley

In terms of trading, it's been reasonably in line so we're not going to make any real predictions beyond that, and so I'll pass to Tushar on the cards.

Tushar Morzaria

Yes, thanks, Jes. On the model updates, I try and let you guys know a quarter or so in advance whenever I can; this one, just the way the work was being conducted, I wasn't able to do that. There's nothing individually significant about it, we refine our methods periodically and we recalibrate our models periodically, and this was really driven by a regular update. What is wasn't, and I think you probably got this from the slides and in comments, it's not an increase in underlying impairment level, so it's just a one-time update to our models rather than a run-rate effect. But there will be other stuff that we'll put through for the rest of the year; it won't be significant, it will be of the same quantum that you've seen here as well. And don't forget the step change of impairment for this one quarter, there were really two things driving it; there was a refinement to our models, there was also a debt sale this time last year which is a crediting effect. So remember both of those effects.

Martin Leitgeb, Goldman Sachs

Good morning also from my side. My first question is on the [US IHC] proposal; with the first deadline having obviously elapsed on the 1st July and a requirement now to have a well-capitalised subsidiary in the US, I was just wondering if you could give us a couple of key data points on that subsidiary. For example how much capital you transferred, or you converted from debt to equity, and what the balance sheet size of risk weighted assets are there? And the second question is in relation to your mortgage book, and how much of that is London, and specifically within London, if you could give us a little bit more colour on the loan to value dispersion or new exposure greater than £1m there? Thank you.

Tushar Morzaria

Thanks, Martin. On the intermediate holding company that we incorporated and stood up on the 1st July; you'll see financial information that will get published, I think it will be in the fourth quarter effectively as we start filing with the Fed, and we haven't disclosed anything yet, so I'll refrain from sharing on this call, that wouldn't be appropriate. But to be honest, you can already see financial information for our bank in Delaware and you can also see it for Barclays Capital Incorporated, and those are the two material entities in the US for us. I know, Martin that you've been having a close look at these in the past, so I don't think you're going to learn something that's significantly different from just looking at those two entities for now.

In terms of our mortgages in London, we are certainly more geographically biased towards the south east of the UK rather than London itself. We haven't split out here loan to value of properties over a million but I would say that the loan to value, and you guys already know this, but there are many ways in which you can look at the amount of equity in the mortgages that we write, and loan to value is a more conservative way of doing that. There are other ways of reporting in a slightly different way, but on a [balance-weighted] loan to value basis our average is 47% and the properties that we have in London would be actually even lower than that so there's an awful lot of collateral available and a relatively low risk in that book from our perspective.

Fiona Swaffield, Royal Bank of Canada

Hi, good morning, two questions also. Firstly, you indicated RWAs longer term could reach low £300bn and I was just wondering, one of the moving parts is obviously organic growth, and would you have changed your view on loan growth post-Brexit, or organic growth within the Core in general? And the second question, just a numbers question on Barclaycard Consumer UK and the step-down in revenue Q2 vs Q1, whether there's anything unusual in there that we should think about because it's a rather large swing? Thank you.

Jes Staley

On the first question, in terms of the £300bn change in RWA. No, we haven't changed our view of where we're directing in our RWAs because of Brexit. I think it's way too early to get a sense of what the Brexit impact is going to be. We said on an earlier call that generally you have an economic downturn caused by a curtailment in the supply of credit. What we've seen thus far post-Brexit is clearly a pause in the UK consumer, as well as some of the corporates, in terms of their demand for credit. So applications for mortgages, for instance, are off a fair amount. And obviously you saw the PMI number. I think the banks, and particularly Barclays, went into the Brexit vote with a very strong capital position, very strong liquidity, and we are open for business, and we did, following earlier applications, £2bn of mortgages in the UK post the Brexit vote – that's an 8% increase year over year. So we're still open for business, the supply of credit is there, and let's see how the UK economy ultimately rolls out post the referendum vote.

Tushar Morzaria

Fiona, on the UK card business; there are a couple of things going on, the most material one is obviously the effect of interchange fees, that brings revenues down. There is one other item that did flow through there this quarter, I didn't call it out, it was not that big, but perhaps just to help you explain what's going on. There was one item that related to the Consumer Credit Act that was a form of redress in effect; they go through the income line and that explains the other delta if you get a non-recurring thing. But the most significant is really the impact of the interchange fees.

Fiona Swaffield

Thank you.

Chira Barua, Sanford Bernstein

Hi guys; just a quick one. I think Martin has already asked you a question on the intermediate holding company, just a very quick one; do you know, has the Fed advised you on the level of capital they expect you to have against the balance sheet in the intermediate holding company? And can you give any colour at this stage whether you are okay with capital there, under-capitalised, over-capitalised?

Tushar Morzaria

Quite simply the intermediate holding company needs to comply with all bank holding company regulations and solvency and liquidity and any other prudential matters, and that's what we of course will do. So they don't advise specifically; obviously beyond that there is CCAR, you'll be familiar with that as well. We have a private CCAR next year and a public one the year after, that's obviously informative as well in terms of the numerical amount of capital that we need to hold. So nothing I can share with you now but we'll comply with bank holding company regulations in good time.

Chira Barua

Just a quick follow-up on that; will the PRA allow double leverage in terms of you issuing something out of the group and using it as capital back in the US?

Tushar Morzaria

I think that's something that the PRA are considering; there's a consultative exercise going on and we've fed into that, so we'll hear back from them. Obviously we'll be making our own plans, and we've been reasonably straightforward in terms of the amount of holding company issuance and how we've down-streamed it thus far. It's been a like for like down-streaming, so we've been reasonably transparent with what we've been doing with that up until now and will continue to be so. Thanks, Chira.

Fahed Kunwar, Redburn

Hi, just a couple of questions; the first is on the convergence of the Group ROTE and Core ROTE, so you obviously have costs and income, or the drag from income and costs, coming down quite a lot in 2016 to 2017, but even then the drag is going to be £600m-700m, I suppose I was just wondering what is the moving part to getting that number down in 2018, so when it wraps back into the Core the Group ROTE is comparable to that Group number at the moment? Consensus has it coming down anyway, so I was wondering what do you see in that number in 2017? How actually does it mechanically go down in 2018? And my second question was just on the discount rate on the pensions; your discount at the moment is 3.9% and I think your sensitivity is around a 50bps move downwards on the discount rate it affects your plan, or your liability by about £2bn, so what is the chance that you follow other European banks and have a hit to your core tier one later in the year as you have to re-evaluate your discount rate? Thanks.

Tushar Morzaria

On the ROTE convergence, you're looking at these things on a calendar basis, for example we've guided to cost of £400-500m on a calendar basis in Non-Core, we would expect our exit costs in 2017 to be tracking at a much lower level. So in some ways it's what you would expect, it's momentum going through from year to year, just trending in a lower and lower level through the passage of time. We won't have Non-Core in the way we do today in 2018 but whatever remnants of it are still around in 2018 will be substantially lower than they would have been even in 2017.

Jes Staley

The idea is that as we get to £20bn of RWA in Non-Core by the end of 2017 essentially you've got the ability to close down the business.

Fahed Kunwar

What kind of drag are you looking at though on the ROTE in 2018? Obviously it will be something, I assume?

Tushar Morzaria

Look, we're not giving out specific returns, numerical guidance; you know that we've been setting ourselves the objective of having a double digit or above return in the Core on an increasing capital base and we've been doing that reasonably successfully over the last couple of years, and that's what we'd like to continue doing, and converge the Group to that.

In terms of the pensions; if you're looking at the deficit/surplus as a capital matter, we were in a slight surplus at the end of the second quarter and of course that reflected the big gap down in UK interest rates. You can see there the surplus that we had in the first quarter has come down quite a bit as a result of that. There are a lot of assumptions that go into the accounting-based deficit; you've obviously got the movement in AA spreads, you've got inflation assumptions, actually the volatility of inflation assumptions as well, which is quite sensitive, as well as the asset side. But it's not just completely dominated by long term rates; I'd caution you just [against looking] at that as the only proxy for how the pension moves.

Jes Staley

Maybe one final comment about 2018, remember our strategy and our objectives is to generate a double digit return in our core franchises, which we are clearly doing now, and the strategy is to converge Core with the Group results by some time in 2017-2018. By getting to that convergence we're not taking away our objectives of delivering a double digit return on tangible equities.

Fahed Kunwar

Okay, that's helpful. Thank you.

Vivek Raja, Mediobanca

A couple of questions from me as well, please. I think you've partly answered this already but I just wanted to check, so the RWA direction that you talked about, the low £300bn, I think in Q1 you were talking about more like £330bn. So I know that maybe I'm being pedantic here but I just want to check you haven't changed emphasis, even subtly, on that? And the second question I wanted to know about was, I appreciate that you've gone through some product reviews in Europe and I just wondered, within the cash equities franchise, what the market share was tracking at in Q2, how that compared with previous quarters, and, if you've lost a bit of momentum, how long you think it would take to get back there relative to the market? Thank you.

Jes Staley

In terms of RWAs there's no change in the direction that we gave previously.

Tushar Morzaria

So no subliminal messages there, Vivek.

Vivek Raja

Okay, thanks.

Tushar Morzaria

And on the equities, on the market share; if anything our US equities business actually grew and a simplification of products that we made was really based around Europe so I'm not sure I would necessarily conclude we've lost any market share, it's just re-basing to probably a slightly different run-rate and we continue to build from there.

Vivek Raja

I'm just thinking your year on year Equities print, when I'd assumed you'd have had a strong week after Brexit in European cash equities, that hasn't really come through so I'm assuming there's some disruption, specifically to the European franchise. I appreciate the US franchise is going strongly, and I'm just wondering whether that disruption could persist and how long that could persist for?

Jes Staley

The Brexit vote was on June 23rd so I think in terms of our investment banking results Brexit will have had virtually no impact at all on the second quarter number, either Equities, Credit, Macro, Currency, it just didn't really move the needle.

Vivek Raja

Okay, thank you.

Peter Toeman, HSBC

I wanted to ask you, you had that comment about mortgage market competition I think is on slide 11, and attenuating mortgage spreads, then on slide 37 there's a slide on the mortgage book which you've given before which shows 2% of mortgage book on SVR, and I would have thought that if you had 2% SVR on a mortgage book it would be pretty immune from spread pressure because there would be no significant high yielding back book, so I'm just wondering what's going on there?

Tushar Morzaria

I'm not sure I fully understand your question. Sorry, Peter, I mean you're right in the sense that the SVR book isn't as sensitive to immediate changes in interest rates. I'm probably not getting your point.

Peter Toeman

It's just that the SVR book is already very low, therefore presumably there can't be much re-mortgaging away from SVR into lower return front end products because the SVR book is only 2%, but attenuation of mortgage spread is a feature, or mortgage margin competition is a feature that you highlight for

Barclays UK. I would have thought that not having an SVR back book would have been helpful in preserving mortgage spreads.

Tushar Morzaria

Well yes it is, but don't forget there's a lot of tracker reversion, so you've got a lot of people that are re-financing not just because they've got SVR books but taking advantage of better fixed-rate products and other mortgage products out there. What is interesting that we've seen, I guess the fixed-rate mortgage, the short-term, two/three year, fixed mortgage product is probably the most popular product out there at the moment, and as fixed-rate is lower there is an attraction for people to re-finance into those fixed-rate products. So there's a bit of that that goes on.

Jes Staley

As a broad comment, one of the things I feel really good about coming into this quarter is the prudence that Ashok and his team took in terms of the credit quality of our mortgage book. There's been a lot of pressure over the last couple of years by the challenger banks and whatnot, and we held onto our strict underwriting standards; that's why I think we have a very conservative and well-founded mortgage portfolio going into the third quarter. Thank you.

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