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Barclays PLC**Group Strategy Update Analyst Breakfast Meeting****Edited transcript****Tushar Morzaria, Group Finance Director**

I'll just make some very short opening remarks and then go into Q&A and just keep going till we run out of questions. And this is all stuff you heard me say on Thursday and it won't be anything new but it's just from my perspective worth reinforcing and re-emphasising because it's very important to the strategy. So hopefully it's come across loud and clear that what you heard about on Thursday is a fundamental change in the structure of the group. I mean, this isn't tinkering at the edges; this is a complete rethink for us.

And for us the two objectives, three objectives, one was to get the investment bank within Barclays to be more balanced. It was very FICC dominated and very macro dominated historically. And our view is that those particular products are certainly experiencing some cyclical challenges. In our view, at least for us, there's a decent element of structural challenge mixed in there so very important to realign to that. And so you've seen a lot of the businesses that migrate out of the investment bank into the non-core unit are very geared towards macro and macro-type products.

The second thing is not only resetting the investment bank so it's more balanced amongst itself, but also within the group. The investment bank was just really way too big for the type of the group that we are. So this is quite an important thing for us in a sense that we've agreed internally to cap the scale of the investment bank certainly in regards to RWA, and therefore capital utilisation, to no more than 30%. That wasn't so much of a goal seek but it was conveniently an output of the strategic review of the investment, it gave us close to a 30% RWA capital utilisation, which we felt pretty good about.

I believe management in the past at Barclays have said something similar but then Barclays Capital, as I understood it, continued to grow and grow and grow. You won't see that happen with the current management team. We will keep the investment bank at that relative size to the group. So my guess is you won't really see the investment bank consume more than 120 billion risk-weighted assets, at least

while I'm in the picture, notwithstanding dramatic rule changes and stuff like that, but the intent is to keep it within that scale. And it may even get a bit smaller over time. We'll see.

A few other points from me, so we've rescaled FICC, we've rescaled the investment bank. The objective of all this is to release capital and allow the more traditional banking franchises, commercial and retail and credit card franchises, to grow and we can release capital into those areas where we see opportunities. These things are not obviously like the investment bank. They're more glacial in terms of the speed at which they grow. So we're doing advanced planning to the extent we anticipate capital release, [to see] what opportunities those businesses have and how could they best utilise them and we'll only do that where that makes sense.

And all of this, I've seen some of your reports that are beginning to reflect this in the notes that came out on Friday, where I think a couple of you have started to use a slightly lower cost of equity and that's again quite important for us in the sense that really the output of all this is stable, more predictable returns. And we'd like to think that over time the market will reflect that in the cost of equity for us, so that will be for the market to determine. But I notice that some of you have made some adjustments there and that's pleasing for us to see that you're recognising that as well.

The final thing I'd say on this is at least from my personal perspective some of this is also swimming with the tide of regulation as well. As we see structural changes to the way in which business is active in the market, we see changes in the way that capital is ascribed, changes in the way of recovery and resolution, ring-fence and everything, a lot of this strategy is designed to be congruent, so as to swim with the tide of regulation and to be consistent with that. So we're hoping that many of those changes on the horizon will feel easier to cope with this structure.

Just a few more points before I hand over to Q&A. I just want to re-emphasise that continuing to improve the efficiency of the company is still very important for us. You saw a step down in our cost base in the first quarter. We are very committed to continue to do that; you've seen the new cost target that we're guiding to, so very committed to that. Improving the efficiency of the company, both the IB and outside the IB is still very, very important for us and you should continue to see us prioritise that.

Running down non-core obviously becomes crucial in this strategy and how we do that. For us it's as much about capital preservation and prioritising that, but we will have decisions to make as we go through, some of these sales, disposals, run-offs, unwinds, etc, and really making the trade-off between what's ROE accretive, what's CT1 accretive and what's tangible book dilutive, and doing that in the right way and in the best interests of our shareholders. I'd throw in there costs as well; we've been very careful to ensure that the costs that we're ascribing to the non-core in our view are marginal in nature, so as the non-core winds down, we should see those costs wind down along with it. It won't always be perfectly correlated but over time we should see those costs come down, as assets leave the non-core.

And a final comment from me, you've seen us commit to new capital milestones, 11% of common equity and 4% leverage. Again, those are very important for us. The staging post that we had prior to them of 10.5 and 3.5 respectively are still maintained but really, as you can see, we're going to try and shoot well through them. And the only other things I'd say to you, which I did mention on the call, was I think you'll see that for 2014 it will be a transition year for the investment bank, as we reset the footprint of the investment bank. Obviously you should expect to see a reduction in fixed income revenues principally as a result of the changes that we're making. You began to see that in the first quarter; you will see that in the second quarter and thereon.

And hopefully as you get the restatement, that will give you some sense of what the historical run rate is, but I think, certainly the first half of this year, it feels like a cyclically different period than it was in prior periods. So I'll leave you to interpret that. April, just to re-stress for everybody, I did give guidance on the call, that April was a month in which we saw, at least for us, the continued weakness from the first quarter persist into April. I mean, one month in and of itself doesn't make a quarter, so very hard to call the quarter and still way too early in May to conclude anything one way or the other, but just to remind you April was a weak month for us, and that'll be a combination of just weakness that we saw, as well as the continuing repositioning that you'll see take place this quarter as well.

That's really it from me, happy to hand over to Q&A from here and as you ask questions if you just want to say your name and where you're from, so we get a chance to know who is asking the question, that will be terrific. Yes, Chris.

Chris Wheeler, Mediobanca

Chris Wheeler from Mediobanca, good morning.

I just want to say this is one of my five/two days, that's why I'm sitting here looking really sad as I look at breakfast!

Tushar Morzaria

You could do a one/six day this week.

Chris Wheeler

A couple of questions. First of all, you know, I cover JP Morgan, so your old boss keeps telling me fixed income [decline] is cyclical not secular. I'm getting the feeling that you, and perhaps some others, are now telling me it is secular, which I think is what I feel in terms of the change and what's going on in fixed income. Can you talk a little bit about that, because some of the weekend press was making the

obvious comment that you were saying never again, or certainly Antony was saying it on Andrew Marr yesterday, that's where we are. We're not going to go back into [IB] or not to the same extent.

But are you concerned that you may find yourself two years down the line where you are going to have to say actually the markets are picking up again and we are perhaps going to have to say we have to take advantage of that? And then the question out of that is just looking at the RWA you have tied up in this business now, you've gone down to about \$200 billion and looking at that you were in line with Morgan Stanley, Goldman Sachs, half of that of JP Morgan, you are now down below Deutsche Bank. Has it really gone away from being a scale business, because I think that's important?

Tushar Morzaria

Thanks for that, a few questions there. So secular versus cyclical, I mean it is always going to be a cyclical business no doubt about it. You know, I'm the first to admit that for rate markets, foreign exchange rates, commodities, whatever, there will be times when those will be intensely profitable asset classes, so we shouldn't pretend they will never be profitable ever again. They absolutely will be, no doubt in my mind. I don't think – it's a personal view of mine – I don't think they will be as structurally profitable as we've seen in the last few years. I think in my mind a number of reasons for that.

One is I think we've had the bull market of a lifetime in certain government bond markets. I think it's easier to market make when those bull markets happen. I think it's trickier to do the same in a bear market. We do have changes to market structure, so things are going to be pushed more onto electronic exchanges, pushed more into standardised products. Ticket sizes will probably get a little bit smaller. So I think that'll have an effect on flows and the market as well.

I think the other thing that's perhaps different for someone like a JP Morgan and Barclays is of course JP Morgan has a gigantic corporate bank that feeds a lot of its fixed income business. They do a good job of mining that seam and other firms have got the privileged position for that. We don't have a global massive corporate bank. We have an outstanding UK-orientated corporate bank but of course the UK economy is a tenth of the size of the US, and obviously smaller in the rest of the world, so we just need to be cognisant of that. And I think it does help when you have cyclical downturns, if you have a large corporate bank that pushes through a lot of, say, foreign exchange business. No doubt that's advantageous to those firms that have it but it's not something that we have. So it's not something we can rely on to push in any cyclical downturn.

And in terms of what happens as and when cyclical upturn takes place, in my mind the IB is still a fluid animal; we will reallocate capital within the investment bank. We'll do that carefully, thoughtfully. But the real speed limiter for us is it will no longer consume more than 30% of group's resources, so we want to maintain the investment bank to continue to be diversified within there, and we will reallocate capital

as we see opportunities and as we see client flows but it will be very much with that in mind. So I don't think you'll see a massive ramp up in allocation of capital towards those trading businesses, but at the margin, of course, we'll reallocate when we see opportunities.

Tom Rayner, Exane

Good morning, it's Tom Rayner from Exane BNP Paribas. Could I just ask a couple on the non-core. I noticed you just mentioned capital preservation when you were speaking and the focus on the slides on the day was more sort of TNAV preservation, so I don't know if that is picking too much or whether there is some significant in that? I just wondered if you could comment. Is there anything you can add, I know I asked this on the day, but the allocation of the funding costs between the core and non-core, I'd like to hear if there's any further thoughts on that.

Tushar Morzaria

On capital, there was nothing subliminal in that, so TNAV preservation is a priority but we'll be very mindful of that, but we will have to make some trade-offs; we won't slavishly avoid deals that are capital accretive, regulatory capital accretive but TNAV dilutive, there will be trade-offs that we'll make. But I don't expect to take significant reductions in TNAV over the course of unwind. But we will make trade-offs, there will no doubt be certain assets, perhaps even businesses, that we'll dispose of that may be dilutive but capital accretive, but we'll be mindful of that; TNAV preservation is a priority over the life of the unwind.

In terms of funding costs, not a whole load more to add to what we said on Thursday. We will match fund, continue to match fund, I guess, we are match funded in terms of assets/liabilities. And in terms of the assets that are going to be in non-core they will be match funding as well, and most of them coming out of the investment bank we'll use the liability structure of the investment bank to ensure that they continue to be match funded, but probably no more details on that that we will give out today than we gave on Thursday.

Chintan Joshi, Nomura

Chintan Joshi from Nomura. Can I explore the earnings power of the investment bank over the coming 12/18 months? FICC was down 40%, adjusted for repositioning, you said it was 30%, I'm guessing core IB probably down less than that, let's call it 20/25%. I mean, should these kind of trends, should we use these as a base to think about how near term investment banking earnings power develops? And also in terms of the non-core you said costs will flow with the assets, so is it fair to expect revenues will flow down a little bit faster than cost? That's the first one.

And then the second one is, if we could get some colour on the legacy assets or non-core assets where you see them below book value, firstly, is that a material portion, and, secondly, can we expect some colour down the line on what are the moving parts like other banks seem to give us?

Tushar Morzaria

On the investment bank near term performance, the only thing I'd say on that, Chintan, is, well a few things I suppose. It is a transition year so you should expect a reset particularly in the fixed income realm as we complete the reposition. You've got to remember in the first quarter as we did the repositioning there was a small number of people involved, if you like, inside the tent on this, because without it being a public announcement obviously we didn't have the whole trading floors in the full knowledge of what we're doing. So the repositioning that we were doing was really done with very senior management already beginning to bias the business towards the kind of business that we're doing, and bias us away from the kind of business that we would no longer be doing.

Obviously since Thursday we're now in the full flow of that. People's mandates have been reset, people are now much clearer in what they will be allowed to do, and what they are not allowed to do, and how we manage the client transition accordingly. So it is a transition. I'm not going to give you forward guidance on revenues, I think that's a very dangerous thing to do in an investment banking space where it's such a cyclical business, but there is going to be a reset. You saw some of that obviously come through in the first quarter. April looks to us similar to what we saw in the first quarter. Who knows what May will look like; who knows what June will look like, it's very hard to tell in this kind of business.

So I won't give any more guidance on that, but on the costs, your second question, should you expect in non-core revenues to dissipate quicker than costs will come out? Almost inevitably, because revenues can disappear from one day to the next but costs there is a lag time before you see it come through in the numbers. And I think that's what you saw in the first quarter. This quarter a lot of the actions that we took in the second half of 2013 ultimately hit the numbers a few months down the line. The best example I can give on that is, say, redundancies, when we announce someone's redundant or make someone redundant today they are typically on the payroll for a period of time and you don't see the full quarter effect of their cost leaving the organisation probably for one or two quarters later. And a good example of that is the first quarter you see a fairly material step down from the fourth quarter and it's really seeing the first full quarter effect of that.

So there will be a level of a synchronicity coming through there but we will, you know, we're very anxious to take costs out as soon as we can, so we will be as aggressive as we can on that, but it will be somewhat asynchronous just inevitably. Your second question around, I think, what's inside the non-core in terms of assets, you should see that in our disclosures. We are working through, you'll see it for

the first time in the full half, or the first half I should say, what we'll disclose in terms of the breakout in non-core, but we'll give you, I think the granularity that you're looking for.

It's really two pillars, if you like, and perhaps we can split those pillars into sub-pillars, so the big groups are European retail which is relatively straightforward because you've see that broken out already in our clusters and the rest is really everything else which is almost entirely the investment bank. There are some small contributions from the corporate bank, some really small contributions from wealth and Barclaycard which are of no real significance. So it's really an investment bank story. Obviously the exit quadrant that you've already seen from the investment bank that will carry over so you've seen the granularity there.

And then the new things we'll put in there we'll try and lay that out for people, so you can see what it is. A lot of them will be derivatives. It's a little bit more difficult to give that as a line by line breakout because it's really portfolio effect but we will lay that out for you.

Chintan Joshi

The fair value versus book value is that?

Tushar Morzaria

Yes if there is anything below book value. I mean, as an accounting matter that most of these things are mark to market, so as an accounting matter these are fair valued assets, so at least to my mind they are already at fair value, and are moving over at fair value. We don't believe we need to take significant haircuts in the transfer to non-core, and think we can manage those positions at those levels, notwithstanding market moves. If there's a big leg down in markets, we will re-mark those assets just like we would anything else, but there's no big haircut to take on day one.

Chintan Joshi

Thank you.

Manus Costello, Autonomous

It's Manus Costello from Autonomous. First, Tushar, how are you thinking about the non-core business post 2016, because in my discussions with investors there seems to be some debate about how to value non-core: whether it should be a positive value, or a negative value, or no value at all. I just wondered do you see it, the run off, as something which will allow Barclays to be adequately capitalised in the future, and therefore it is what gives you the strength as an organisation to be well-capitalised, or do you actually see non-core as a store of value and potentially excess capital beyond 2016?

Tushar Morzaria

It's hard to make predictions that far out. I'd like to think that we will have run down what's inside the non-core as an asset matter so the guidance we gave, we would anticipate about 50 billion of risk-weighted assets at the end of 2016 of which we're making the assumption that Europe retail won't have been sold, which may or may not happen. But let's assume it hasn't been sold then that would consume about 16 or so of that 50, leaves you somewhere between 30 and 35 for the investment bank [and Corporate] and that's going to be principally the derivatives book at that time. There will be some securities there no doubt, but there will be a bunch of derivatives that are more longer dated in nature and roll off in the fullness of time.

So I see that really as a capital release mechanism, and we'd like to try and utilise whatever capital release obviously to grow our traditional banking franchises. And to the extent we can't, then we'll find the next best thing to do with that capital. Obviously, at the same time, we are increasing our regulatory capital base, so were we to even not do any expansion, the capital release will go to improve our common equity and also, I guess, by inference our leverage ratio as well. We gave guidance at the full year that we would expect our end state capital requirements to be somewhere around, somewhere between 11 and 12%. We'll see in 2016 whether that still continues to remain to be the case and adjust accordingly.

Manus Costello

That was going to be one of my follow up questions, should we expect any reduction in any of your capital deductions like PVA, etc, as we go through the [period].

Tushar Morzaria

Hopefully yes, I won't give specific guidance, but hopefully yes. I mean, there's potentially a whole bunch of things that could happen with capital, so you've talked about deductions, so there may be some reduction in PVA, that's not a prediction but, you know, it's not unreasonable to be looking for the impact of that. But PVA rules are in themselves somewhat fluid, so they may or may not change over that timeframe. Other things that may change are G-SIFI surcharge, may or may not change, obviously it's a different looking institution. Our Pillar 2A surcharge may or may not change, again with the different dynamics of the company. So it's very hard to predict all of that and what the outcome is.

But certainly by 2016 that should all be reflected and we'll see what our final resting point needs to be as an end state capital matter, but we'll still continue to anticipate running the place at greater than 11% [CET1] ratio and I think that'll put us in the right place, depending on where that final resting place needs to be. There may be, for example, other things we just don't know about, maybe counter-cyclical buffers applied by the PRA at that time, so there will be a number of factors that will go in and out, I think.

Peter Toeman, HSBC

Peter Toeman from HSBC. The thing I find quite extraordinary is the skew in profitability of RWAs within the investment bank, in that the investment bank is shedding about 100 billion of RWAs, which was the step up of CRD IV, and yet the revenues associated with those RWAs were so modest. And I just wondered if you could explain how that skew was allowed to persist, or where it came from or what lessons there might be that you could take away from that for the future.

Tushar Morzaria

Obviously given how long I've been in the company it's tough for me to comment on the full history on there, but something that's very important to me is to make sure that each sub-business, certainly within the investment bank, the same is true for Barclaycard, retail, corporate, etc, that are sub-units as we define them. And you saw that from the original Transform strategy when the 75 cells that Antony laid out, each of those needs to justify their own existence in ROE terms, and it's very important to me that when we do business reviews and look at business assessment, that each of those things, we're looking at that level of granularity, so we are very cognisant of areas that are underperforming and very conscious if we allow that underperformance to continue.

And it may well be that some of the extreme underperformance from that amount, almost half of the IV's capital allocation looking to be underperforming, may have been because we weren't looking at that level of granularity, and so you can lose the wood from the trees if you're not careful. So that to me is just a really important management discipline, and that's something I will be very focused on making sure we keep in the forefront of every review that we do.

Raul Sinha, JP Morgan

Can you talk about the 25 billion of trading assets also that you put into the non-core? I presume they relate to macro, and that's probably where we're likely to see the short-term negative impact in revenue in the non-core business. Does the RWA related to that particular portfolio run off pretty quickly, so effectively as your traders close positions these are liquid mark to market, you lose the revenue but you also lose the RWA, and then obviously the costs will come down over time? Is that the right way of thinking about it?

Tushar Morzaria

It is kind of. There's a few things in there, so definitely macro positions, but some of them will be derivatives. A large number of them will be derivatives. There will be some emerging markets position in there and they're from the credit cluster, some securitised products and they're from the credit cluster. So there are securities, more traditional securities in there. Derivatives will be the ones that are perhaps

harder to define exactly when they go away. We're getting quite good at, you know, we've created a "machine" that goes around tearing up and compacting trades, and I threw a stat out on Thursday, which I'll just repeat here in case some of you didn't catch it, and it just gives you a sense from a standing start how reasonable we've got at this.

So we tore up 100,000 trades facing LCH, London Clearing House, in the first quarter alone with notionals of about £5 trillion in there. These are trades literally disappearing from the book, so, it's great from a capital release perspective, but particularly from leverage because of PFE, not so much from RWA. With derivatives we'll look to unwind them where we can. It's easier to unwind trades when they're in the money with the clients; a little bit harder when they're out of the money to the client, somewhat easier when they're in the money. So we'll have to be somewhat selective; where there are professional-facing counterparties we'll look to do trioptima style unwinds, where the industry is actually becoming quite good on the back of leverage rules.

And then some of them are just short-dated and will run down over time. So I expect a reasonably orderly run down. I would say though that, if we are not able to unwind anything and we just have to let the book expire, within the 50 billion of RW you've got left, let's say it's 30 to 35 in non-retail, the derivatives' component of that probably still has another, somewhere between three and five year half-life left, and that won't be atypical of many derivative portfolios. But it's a very orderly run down and it will just continue to run down there, and we'll obviously look to accelerate that and tear those transactions up, unwind those transactions in advance of those maturity dates.

So you should see a relatively orderly progression, at least of the derivatives book unwind, and the securities we'll obviously look to do as soon as we can. On costs, I'll just repeat the first comment which is costs will follow, it's just the transmission effect. The actions around costs can be done somewhat contemporaneously, but the transmission effect of the costs leaving the numbers is just asynchronous.

Raul Sinha

And have you had feedback from your fixed income clients in terms of what they think about your strategy, because obviously what you seem to be doing here is a number of factors, but primarily driven by the changing nature of regulation, specifically impacting the duration of long dated swaps markets and the structured end of it? Is that something that's now widely understood in the Fixed Income client base do you think, or is that something that comes as a surprise and hence you might be penalising the next few quarters in your revenues and other areas?

Tushar Morzaria

Yes, it's hard to be definitive on that. Obviously we began the full client outreach on Thursday so, we're quite early on into that process. I think there are two things that we'll find out more about, we think our estimates are good but we'll know for real. One is Fixed Income financing and how much related business we are getting because we were financing our clients. We did a lot of work to try and understand what we thought that was, and how that effect will be, that we'll see for real. I think the early signs are in line with our expectations but it's really early, so we'll have to let a quarter or two go to really get a good understanding.

In terms of long dated uncollateralised swaps, so for example if a hedgefund wants to come to us and wants to do a 30 year power dual reverse convertible, you know, yen into Brazil real, you know, 15 times leverage, we probably don't want that business and we'd rather not have that guy as a client because that's just crazy business so we can do any more, which was really good business by the way five years ago but we just can't do that anymore. If it's a corporate that's got some sort of project finance that needs a long dated swap who may also not post collateral but it's relatively standard in terms of the swap with very good margin and we're also doing the financing, we almost certainly would do that kind of business. But those are very episodic, small number of ticket sizes. So I think on the corporate side I think our business will remain quite intact and that's a really good business for us.

I think on the institutional side at the very long end, or the very leveraged end, we just won't do that business, and I'm not sure there's going to be a lot of banks queuing up to want to do that instead of us. We think we've kind of got the balance about right, but it does remain to be seen. We won't really know now until we see full on client reactions.

Raul Sinha

So is it fair to assume that the stuff that goes into non-core is effectively institutional non-corporate FI-type client relationships?

Tushar Morzaria

In the majority, not exclusively, certainly not exclusively. There will be some [other assets]. We mentioned a particular portfolio of long-dated fair value loans. So that's a good example of something that isn't fully institutional. But the vast preponderance of it is institutional, yes.

Raul Sinha

And just lastly, can I ask you your thoughts on where RWAs will be overall because obviously you had a 440 billion guidance, and now we're looking at core and non-core. You've given us how much you think non-core will be. Where do you think the group needs to operate a bit long term in terms of total RWAs?

Tushar Morzaria

We'll be economic animals about this. The RWA release, I'd like to funnel that into our traditional commercial, retail, card type operations to the extent we have good opportunities to use. If we can't, we'll find other things to do with them. But the guidance we gave, you saw on one of the slides, is about 400 billion [for the Group]. That's sort of the number we have in mind. But, you know, it's very hard to be completely specific about this because if there's a UK recession in 2016, we probably wouldn't want to be growing our mortgage book for example. We may not want to be growing our card receivables. But if there are buoyant economies, if the US looks well, maybe we'll grow our card portfolio more in the US. So it's a little bit of take it as we come, and be smart around that. But all things being equal, if today's macro environment persists, somewhere around 400 will be where we see it. Shall we move to here? Sandy?

Sandy Chen, Cenkos

Thanks Tushar. This might be a bit of a details question, I was just looking at page 36 on the CRD4 movements on RWAs and just trying to tie that with the core versus non-core, and particularly the IB, you might want to come over here and take a look at this. The tariffs that you were talking about, in Q1 there was a negative 9.2 billion counterparty credit risk adjustment on book size. Would that be where that RWA movement would be?

Tushar Morzaria

Are you saying whether that's in core or non-core?

Sandy Chen

No, no, sorry, with the derivatives tariffs that you were talking about.

Tushar Morzaria

Yes, that's counterparty credit. Yes, that's right.

Sandy Chen

And then, I asked this on the quarterly call, that differentiation between model updates and methodology and policy, there was a negative of £11.4 billion and you said in the call that...

Tushar Morzaria

I could have listed them out for you on the call. The reason I didn't, this particular table, is a table that we put in because it follows the enhanced disclosures task force and they do have these two columns, which is slightly, difficult to explain the difference. One is policy and one is methodology and you scratch your head as to what exactly is the difference. Now, I could have listed them all out for you but they happen to offset and there wasn't anything there that was in and of itself significant that I thought was worth calling out. So don't read too much into it.

Sandy Chen

Okay. Maybe I was reading too much into it, but it was saying that on the methodology decrease, one of the two main drivers was refinements and approach relating to the trading book. What I was wondering was is that related to the non-core already in the Q1 numbers and should we expect that to continue.

Tushar Morzaria

No, all of that was business as usual. I think the point of your question is the transitions, the repositioning that we've done, did that in and of itself result in any of those methodology, the 11 up or down? No.

Sandy Chen

Yes, or should we expect more methodology downward revisions as you kind of shift.

Tushar Morzaria

No, I wouldn't guide to that. I mean possibly, but I wouldn't guide to that. You should see RWA come down because assets are leaving the institution, rather than something too clever on methodology. I mean every quarter there are always models that are being tweaked, approved, tweaked, approved. There's a sort of queuing system with the PRA. Some of them are improvements, some of them aren't. An example I will give you, one of the methodology downshifts was actually something in the queue with the PRA for a while. It was a downward shift and they approved it and it went through. So it wasn't anything that "we're doing a non-core/core split, let's get something agreed". It was none of that. There's a whole queuing system of this stuff and we'll have more stuff going through this quarter, and

the quarter after, and every bank has this. So honestly don't read too much into that. If there was something significant, if it was directional, I would have definitely called it out.

Sandy Chen

Thanks very much.

Tushar Morzaria

Go on, Andrew.

Andrew Coombs, Citigroup

Thank you. It's Andrew Coombs from Citi. Just a couple of questions on non-core costs and then one on core revenues please. Just on the non-core, have you decided the headcount that will be allocated to the non-core Investment Bank?

Tushar Morzaria

Yes, we have.

Andrew Coombs

What's the exact numbers?

Tushar Morzaria

We haven't disclosed that, have we, so I probably shouldn't just call it out here. You'll see it. I suspect we'll break out headcount.

Andrew Coombs

But the lines have been drawn and the staff have been or are in the process of being informed?

Tushar Morzaria

Yes, they're in the process of being notified, but we know how much headcount is going into non-core. Yes, exactly.

Andrew Coombs

And then when I look at the costs in the non-core Investment Bank, just shy of 1.5 billion, how much of that broadly speaking is attributable to the long dated rates book, on the basis that's the part that presumably will stay the longest?

Tushar Morzaria

We haven't given that split, Andrew, so I'm a bit coy to do it in a somewhat private forum like this. But put it this way: you could reverse out from there how much belongs to Europe retail, so you know what's coming in from the Investment Bank. A decent slug of that will be the derivatives book. I haven't given the exact split but that's where the infrastructures are heaviest. You know, when you're just running a [back book] portfolio, the number of re-fixings, settlements, position management is much less intensive. It's the derivatives book that requires most of the machinery in place.

Andrew Coombs

And just switching gears onto the core revenue outlook, in terms of risk weighted assets in the core bank, you're guiding for the Investment Bank to be flat, so the other three divisions to be up 15%. And yet it was mentioned by Antony on a number of occasions on Thursday that you are factoring in modest revenue growth but nothing sizeable. So I guess given that you are looking for 15% RWA growth in those divisions, what's the offsetting factor? Why the conservatism? Is it just the cost take out impact from the top line?

Tushar Morzaria

Yes, so we've tried to be very modest in our revenue uplift assumptions. I mean you'd expect obviously some revenues on those RWAs, not nothing at all, very conservative and making sure we run the place, plan to run the place very efficiently through further cost reduction. And I guess, you know, as you'd anticipate, we would make refinements as we go along, see the revenue environment in those particular areas, particularly if buoyant, we would like to put more risk weighted assets to work. Again, it's not a prediction. Unlike the Investment Bank, [the other businesses are] slightly more glacial. So you can't just wake up one day and say here's another five billion in the mortgage book, go out and lend money. It takes five years to do that kind of stuff but we'll make refinements as we go along, as we see the macro-environment. Areas where it could be turbo-boosted could be in card, where we could do portfolio asset acquisitions, receivable acquisitions. We've been quite successful at that. To the extent we see sizeable receivables that are interesting for us, we may or may not participate. But that's probably the one area we could turbo boost it. I doubt if we'll go around buying mortgage books or anything like that. So that will be more business as usual.

Andrew Coombs

No more INGs then?

Tushar Morzaria

Who knows?

Andrew Coombs

Okay, thanks.

Martin Leitgeb

Good morning, it's Martin from Goldman. Just a clarification on the leverage exposure in the Investment Bank and the new Investment Bank going forward. I think the starting number here is around 490 billion as of now, and the target in 16 is 400 billion. In terms of definition, the 400 billion is in January 14 so I'm not sure what the right inflation number is from CRD4 to January 14, so maybe it's 10%, maybe it's 20. So effectively the leverage exposure reduction is roughly 130 billion if you assume 10%.

Tushar Morzaria

It's a bit less than that but yes.

Martin Leitgeb

What is this leverage exposure reduction? Is this improved optimisation, or is there a shift in the business line within the new Investment Bank from now going forward?

Tushar Morzaria

It's a combination of both. It's definitely optimisation, a little bit in the shift in business lines. So most of it will come out of our two favourite areas, derivatives and secured financing, and you should again see us make reasonable progress against that. As we continue with the tear ups and the optimisations and the collateral netting benefits, you'll see that number sort of glide down.

Martin Leitgeb

Is there any cost involved in that?

Tushar Morzaria

Costs in terms of operational costs or [cost from] revenue degradation?

Martin Leitgeb

No, just when you have a long dated derivative and you need to settle with the other counterparty to improve.

Tushar Morzaria

No, very rarely. I mean if it's a client, a third party client where we do want them to break the transaction, we may pay a little bit to encourage them to break the transaction. With professionals it tends to be a risk-less tear up as it's in all our interests. Say you and I were professional counterparties, we'd find a bunch of transactions that were delta neutral to each other and simultaneously just agree to tear them. There's rarely anything to pay for that. It used to be if we had a massive ask to reduce the leverage, and you didn't, then you could perhaps charge us some money for it. But at least what we've seen recently is dealers are quite cooperative, and there tends to be weekly cycles now where all the dealers participate. So it's turning into almost like a factory of tear ups. So it's reasonably well managed at the moment and we don't have to go out seeking professional dealers to participate.

Martin Leitgeb

And then on the derivatives going forward, I assume you do much less, as you mentioned before, in terms of long dated derivatives and so forth. How were these derivatives accounted for previously in terms of revenue and profit. I assume your fees would be senior to anyone else, would you normally frontload the whole revenues to such a derivative over the length of the contract or would it be pro rata?

Tushar Morzaria

Well we don't accrual account for derivatives, so we do present value for accounts and they'd have to be present valued upfront and have reserves applied to them. So particularly for the longer dated derivatives there may be reserves applied for the liquidity risk, the parameter uncertainty, what have you. But in its essence it is present value accounting and that will continue to be the case. JP?

JP Crutchley, UBS

John-Paul Crutchley, UBS. I guess it's a slightly more longer term philosophy question about growth and aspirations, because if you take a step back, actually a lot of these assets you're putting into non-core are on the books in the first place because the business was looking for growth over the last decade because the underlying franchise wasn't delivering [growth]. What does that mean in terms of positioning the

group longer term; I mean should we expect a lower growth potential coming out of Barclays, or what kind of constraints do you put around the business in terms of growth plans because you don't want to be in a situation in ten years time, when you come back with nothing in non-core? So when you consider allocating capital to the businesses, growth potential versus returning to shareholders, how do you think about that metric going forward versus the revenue and growth rate you'd like to see from the organisation?

Tushar Morzaria

There are sins from the past, I think all banks have done but I wasn't here for this one, but I'm pretty sure all banks have been guilty of this, is that at the time of the boom, take the long dated derivatives contracts, and to Martin's question, a lot of the profits were present valued upfront. There may or may not have been reserves applied to them to try and smooth the revenue profile, but what wasn't being done was that capital costs weren't being present valued upfront. You can't do that as an accounting matter and I don't think many banks internally were sophisticated enough to do that. So what happened is the profits were very frontloaded. Not capital costs, and that's why we're in this non-core situation in the banks. So perhaps it's a little bit like pedalling a bicycle. It's okay when new business is coming in but as soon as new business dries up then you're going to fall off. It's a little bit of what you're seeing in certain institutions, and I think that's what we're facing here. So that's why I think we're in the predicament where we are.

In terms of growth rates prospectively, there's no doubt you can grow an investment bank quicker than any other business. I can give the investment bankers £10 billion of RWAs to play with and it will be gone in a nanosecond. If I walk over to Ashok Vaswani and give him £10 billion of risk weighted assets for his mortgage book, he's like "you need to give me a decade to grow this thing". So it is going to be a different pace of growth. The only area where you can I think grow really fast is through inorganic stuff, like the ING Direct or some of the card receivable portfolios that we've been purchasing. But again it's still not here's \$10 billion and click your fingers and it's put to work. So yes, more predictable, stable growth I think is what you'll see. Even if the board says we want you to grow the RWA base from 400 to 430, unlike times in the past where they could do that by the end of week, it's going to take a longer time in the current world.

JP Crutchley

And thinking about employing [capital] in the business versus returning to shareholders, how do you think about that longer term as well?

Tushar Morzaria

Our number one priority is to maintain the dividend at 40%, accruing capital to where we're close to a resting point. Going back to the earlier question, there'll be some ins and outs so hopefully that will be clearer by 2016 as to what our resting point is. And then I think it's really a matter for the board to decide whether we've got better use of the money, or whether it goes back to shareholders. I think there is a strong desire within the company to increase the dividend to a 50% ratio. We certainly won't even consider that until we're at 10.5% common equity as we've indicated. Post then I think absolutely that's a real objective and we'll get there quicker if we haven't got good things to do with the money ourselves. Chris?

Chris

Good morning. So a few questions if I may; the first one was on the core revenues again, we see that group revenues were down 14% year on year in the first quarter. What has happened to the core revenues in Q1, if you might be able to tell us that? The second question was the cost cutting from the core. So obviously you're doing quite a big cost cutting in the core, if we look at the redundancy program, are you going to be cutting retail branches? Where is the cost cutting coming from the core that won't cause revenue bleed in the core business? And the third question was just on the tax rate. I'm using 32%. That's obviously way higher than the UK corporate tax rate. I guess a lot of the IB business you're getting rid of is in the States. Should we be reducing our tax rate or what should we be using there? Thanks.

Tushar Morzaria

Yes, so the first one, core revenues in the first quarter, we haven't given any guidance on that side and I shouldn't in this audience. The only thing I'd repeat is expect to see at least the Fixed Income weakness in the combined IB, for the various reasons that we saw in the first quarter, persist into April, but no further guidance other than that. I'll just remind people that a lot of components at the core, the retail business, the card business, the corporate bank which are predominantly staying intact, almost no changes to them. The card business was up 17% in profits before tax, retail bank was up 20%, corporate bank was up 42%. These guys are really doing quite well. Top line in the first quarter was impacted by FX rates. Where you didn't see FX rates, like for example UK retail you saw top line growth of 7%. We saw top line growth at 3% in card; there's an FX component going on in there. And in corporate we've got this ESHLA portfolio, a super long dated marked-to-market portfolio. If you strip that out you saw quite decent top line growth in there, even though there was a little bit of FX. So I think the top line growth was quite a decent story for us in the first quarter and certainly profits were a nice story for those businesses.

Your second question was where were the cost reductions coming from with regards to core, and will that have any income degradation. Certainly not for the traditional retail, card, commercial franchises

because they stay broadly intact, and we aren't closing hundreds of branches. Everything that we did in those kinds of businesses, were actions that were taken last year that you'll see the full effect of [coming through]. A good example would be, we've been public in this, we've consolidated some of our servicing functions for our retail customers. We did roughly 1,700 redundancies in a place called Tetbury and that was a full voluntary program, almost entirely voluntary. And that's really made no impact to our customer service. If anything, it's one of these kinds of weird things; the fewer people you can have in customer complaints and customer services, the better your growth becomes. It's a very interesting correlation. So if you're putting a lot of stuff through digital channels that are very automated and very seamless, a lot of our mortgage activity now, the amount that goes through online. One of the ways of measuring how good we are at that is the percentage of people that start a mortgage and complete a mortgage, it's at our highest levels at the moment and that's because of the digital channels that we're using. Now, the great thing about that is the high retention rate, from starting an application to finishing it, means our mortgage market share goes up because we're printing new mortgages. So you saw our stock go to an all time high of about 10%. But not only is it doing that, it's getting less expensive to produce those mortgages. Not simply because of scale but because it's all being done digitally, so no paper, no complaints, no-one wondering where they are in their application process, so no calls to our call centre etc. So it's actually a very interesting correlated benefit. So I'm not expecting any top line degradation from those cost reductions. And you saw a decent slug in the Investment Bank and obviously some of that will be wrapped up into core and non-core.

In terms of your question around tax rates, yes, so the reason why it's higher than UK corporate tax rates is as you pointed out; a lot of our business is in the US which has a higher rate of basic rate of corporation tax. And there's also deferred tax assets that go into this mix which makes things a little bit more complicated. I think your planning rate of around 32% is probably reasonable. The reason why it's difficult to be very precise is the one sort of wild card in all of this is the bank levy, which is non-deductible for taxes. So when you have a weak-ish year it can result in a very high marginal tax rate because it's such a large item that it becomes non-deductible. So just bear that in mind, particularly as we go through a transition year like this, where you'll see, as a comparative year, fixed income revenues just by definition will be lower, somewhat cyclical because we're reselling our Fixed Income business. So that will put pressure on the marginal tax rate to probably creep up a bit, because of the bank levy, it's like a negative convexity effect. The bank levy stays where it is but the taxable profits, you get a lower deduction.

James Chappell, Berenberg

It's James Chappell, Berenberg. Tushar, I just wanted to ask you about two questions on the Investment Bank really. In terms of end state, you're probably today what, sort of 25% of your IB is corporate, 75% is institutional. Where do you expect that to be in an end state? And then the second one is you talk about

2014 being a transition year. At what point during the year do you think we've got it in the right shape, we go forward from here?

Tushar Morzaria

Yes, the second part of your question, when do we reach cruising altitude or whatever you want to call it. Gosh, it's really hard to be specific on that. But it began on Thursday at 7am in the Investment Bank, to communicate to everybody and reach out to clients and accounts, so it will no doubt take a couple of quarters to completely go through the system. I'd like to think that certainly as we close the year we'll be at "run rate". Of course the fourth quarter is a slightly funny time to be doing that, because December tends to be a slow-ish month, but somewhere around that turn of the year. A lot of things certainly start in January which tends to be the best month of the year. We'll be out of the blocks with a full reset.

In terms of the mix of corporate and institutional, I'm not sure we've ever given the exact corporate/institutional split but you could see it...

James Chappell

You did about four years ago, three years ago.

Tushar Morzaria

Did we? Okay. I would only expect it to probably be slightly less biased towards the institutional just because most of the business that is less attractive for us tends to be institutional, whereas the corporate business tends to be something that we still find very interesting and very linked to our origination activities. Michael?

Michael Helsby, Bank of America Merrill Lynch

Thank you. It's Michael Helsby from Bank of America Merrill Lynch. A couple of questions please. Firstly, you've given us this ROE drag for non-core, so we can back out that the profit in 2016, it's about a billion drag pre-tax. If I look at the Western European piece, I think it's probably reasonable, given the impairment trajectory, to think that that's breakeven by 2016. So I think what you're telling us is about a billion of drag in the IB. So what I'm trying to understand is given that you're only allocating 1.5 billion of costs to non-core IB to start off with, you're telling us costs are going down but assets, there's a big gap between... So it's not exactly disposals that you're expecting?

Tushar Morzaria

Yes, it's not so much that. There is this asynchronicity with costs. Obviously you should see them trail off reasonably orderly once we get the actions. The other thing I have in my mind that is a sort of unknown

unknown is what forms of litigation or redress or conduct that we may or may not experience over this timeframe as well. So I've been quite conservative, at least in my assumptions. Now, am I conservative enough? I guess time will tell. But it's very hard to be totally predictive around this stuff when you're going out in a couple of years, but I've certainly factored that into my thinking.

Michael Helsby

Okay, right. So that litigation will sit in non-core?

Tushar Morzaria

Not all of it. I mean if it relates to legacy business, yes, but not if it relates to current business.

Michael Helsby

Okay. I appreciate that you're conscious of new disclosure but I was wondering if you could just talk around a little bit more that slide 24 in terms of these non-strategic business and other, what exactly is that?

Tushar Morzaria

Let me just take a quick peek at slide 24.

Michael Helsby

It's your non-core IB slide.

Tushar Morzaria

Yes, so a good example of that, I won't list them all out because it will put us in a slightly disadvantageous position when we try and dispose of these. So I'll give you a little example of one. It's a good typical example though. We have something called BNRI, Barclays Natural Resources Investments, which is a super profitable business that's sort of a principal private equity business in natural resource investments. It's great IRR, great return on equity, great cost to income ratio, it's actually a really good business and someone's going to be very happy that they got hold of it. But it's just not strategic for us. So it's not in non-core because it's a basket case, unprofitable, terrible business. It's a very attractive business, but it's just not strategic for us and it's not the kind of stuff that we're going to do prospectively. So there are elements of those kinds of businesses that just have better owners, and we'll look to dispose of them in the right way in the best interests of the shareholders. That's just one example and there are several of them.

Michael Helsby

And you've mentioned your Fixed Income financing business as an area you've put in the slide as well. Can you give us an idea of the scale of the reduction that you're looking to achieve there, because I think that's one of the big question marks if you like on your revenue attrition point?

Tushar Morzaria

Yes, so again I won't give you specific guidance because we haven't called it out, but it's a meaningful reduction – but I won't give numbers around it. I don't think there's an easy way for you guys to triangulate it, but some of the leverage reduction is biased towards fixed income finance, only because it's a leverage-heavy business, but it's a meaningful. We will be in the fixed income financing business, we will still offer it – we will still offer it to those clients that do profitable business with us, but we won't just rent our balance sheet out without being very attuned to what business it's generating and whether, in the aggregate, it's a returns-profitable business. And we probably haven't been that disciplined around connecting where we rent our balance sheet out and what do we get off the back of it. We will make sure we stitch it together. We look at the clients in the aggregate – we will be more disciplined about that.

Tom Rayner

Thank you – and just finally from me, when you talk about the transitional year for the IB – you've given us the core and the non-core split now, so are you thinking that you're trying to emphasise that there's a big transition for the core piece as well? Because a lot of people are looking around, not knowing where they are – clearly activity levels are down.

Tushar Morzaria

No – not so much that, so almost no change to banking, almost no change to equities, large parts of credit unchanged – but some parts of credit impacted – emerging markets, some parts of securitised products, lots of impact to macro – so definitely uncertainty there, definitely a transition period, as people really understand. If I was a person working in the sales force in macro, it's Monday – hopefully they've been communicated as to exactly what their job is, but they may not have been, so this just needs to go through the system, but it's really targeted to those areas – it's not the whole investment bank that's scratching their heads wondering what's going on.

Tom Rayner

So really it's non-core that you're talking about – the transition?

Tushar Morzaria

Yes – that’s right, but remember some of this stuff is a bit more complicated – there are parts of macro that are core and non-core, and if I gave you a new mandate as a sales-person, it’s still not immediately obvious to you as to what that means to you individually. I think we’ll get through that pretty fast but there will be a transition effect for that and you’re beginning to sort of see that. I’ll keep going round – okay, Chintan.

Chintan Joshi

Can I follow-up on Tom’s question on TNAV preservation? How do you think about the cost benefit? If taking something out of it helps you run down your RWAs, show us a smaller non-core, versus trying to maintain where it’s marked at and not trying to make a loss on it – how do you think about this and how do you expect to push it down to businesses?

Tushar Morzaria

To be honest, these decisions will be made by myself, Anthony, Eric Bommensath – senior folks in the organisation for large type impacts. And it’s really a trade-off – you know, something that’s a penny or two off TNAV but gives me – I’ll make numbers up – 50 basis points common equity and 50 basis points ROE accretive – I’d probably do that transaction. Something that’s going to cost me 15 pence on TNAV for no regulatory benefit or ROE accretion, I would never do that trade. So those are easy answers because you’ll have to look at a situation specific, but it is that trade-off. TNAV preservation is important so we’re not going to give away TNAV unless we feel like we’re getting something back for it that’s more than compensating.

Chintan Joshi

So put it another way – if retained earnings [losses] help you to run through RWAs faster – is that a fair trade-off?

Tushar Morzaria

All I’ll say is that TNAV preservation is important. We’re not slavish about it but it is very important and we’ll only go backwards on TNAV if we get significant advantages elsewhere – ROE accretion or a regulatory capital accretion. So we’re going to be quite disciplined about that, we’re not going to spend loads of money off TNAV.

Chintan Joshi

Okay, thanks – and just a bit left-field – on PPI – what proportion of the premiums you've written have been contacted, processed or are expected to be contacted and processed, of all the business that was written?

Tushar Morzaria

Forever?

Chintan Joshi

Well let's say since 2000 – that's what most other banks have focused on.

Tushar Morzaria

I don't have that number with me, but for the proactive process that we had in place that's almost complete. We're just trying to track down people who have moved home 15 times and things like that.

Chintan Joshi

One of your peers has disclosed a large chunk that's not even in the proactive or historical, so I'm just wondering if that's the case with Barclay's or not?

Tushar Morzaria

Well that's what I pointed out – the spike we saw in March for these very old vintages – these are over ten years and some of this goes back before 2001 even. Those aren't proactive – there is no proactive framework by the FCA to do that. These are sort of in-bound claims coming in from professional claims management companies. And we saw a spike in March and we're processing that, digesting that, to see how much of that is valid redress and will obviously be honoured, but everybody should just be aware – we saw a spike. I don't know what other banks saw – I'd be a little bit surprised if it was just us, but it could be just us, and we just need to be mindful of that.

Chintan Joshi

Thank you.

David Lock, Deutsche

Hi, it's David Lock from Deutsche Bank – just a quick question on cost guidance – so you upgraded the cost guidance for this year and going forward, I just wondered how much of that relates to the new

strategy and the new cost-to-achieve you're taking, and if there is any actual element from the last plan which is outperformance?

Tushar Morzaria

It's a bit of both. There was definitely – and you saw that in this quarter – there was some outperformance that we printed in our numbers, if you just annualised them you'd have got to better than 17.5, and some of it is because of further actions that we're taking through the movement of businesses into non-core where we can take the costs out quicker – so it's a bit of both.

David Lock

Are there any examples you can give specifically within businesses?

Tushar Morzaria

Well a good example would be commodities where we just don't need as many traders or sales people as we did around our commodities business, so that's an example that wasn't in plans that were drawn up as part of the original Transform Programme, but certainly in Q1 we've accelerated the reductions there. So that would be over and above the 17.5 that we originally indicated – that's one example, and there will be others.

Fiona Swaffield, RBC

Fiona Swaffield, RBC Capital Markets – I have two areas – one was coming back to costs – if you look at the core costs and the 1.7 billion down, how should we look at it from a gross point of view? A lot of your peers – non-UK – are talking about regulatory cost drift, so just trying to understand if that's already in your base so you don't need to worry about it. And obviously you're talking about growing some parts of the business, so I'm assuming there is some organic investment? And the second one again is on this core revenue issue – to what extent have you put into your plan potential changes on regulation in the card business – on fees - or what assumptions would you have made going out to 2016 on those?

Tushar Morzaria

On gross versus net – so we will continue every quarter – if we see things that are not factored into our plans that we need to update you on, we'll absolutely do that; I'll give you a couple of examples of that – I'll give you three examples – one could be the bank levy. It may be as soon as the second quarter if we get a new set of legislation around the bank levy that we haven't anticipated, and that could be every year, frankly, because we seem to get new legislation every year on the bank levy, so we'll see. Another one could be big moves in foreign exchange rates – so that could either bring the target down or up,

depending on which way that move is – but you know, the 17 billion, a lot of that is in dollars and euros, so this can cause [cost] movements for large movements in exchange rates. The other one is litigation where we haven't anticipated – we've tried to be anticipatory, but there will be some stuff that we just can't predict. We'll try and call that out so you know what that means. So think of the cost guidance as an op-ex – all things being equal – excluding big time litigation, excluding big moves in foreign exchange, excluding statutory bank-levy type updates. In terms of regulatory cost-drift – we think we've been anticipatory about that, if there's a new requirement that we just didn't anticipate, stress-testing becomes completely different in the UK relative to anything that we've imagined, we will update you but that's not what I'm expecting.

In terms of interchange – that's an interesting thing for us, because we're actually a much more biased towards receivables rather than interchange – unlike some other card companies. So we have factored that into our revenue projections, but it will be proportionately less impactful for us than I suspect many other card companies. And actually it could be a really interesting opportunity for us, because we don't have too much baggage as a result of being very large – particularly on the continent [unlike the UK] – when it comes to merchant acquiring and payments. That actually may be a good opportunity for us. We may be able to be acquisitive in that space given that we've got no sort of legacy to absorb. So in some ways that's for us potentially more of an opportunity than it is a problem. Tom?

Tom Rayner

Could I just come back to non-core because it's something interesting, in terms of litigation – how much goes into non-core because that kind of affects your targets a lot, I guess, because we're all looking to back out what the core bank can make and what profitability it might make; the litigation issues that are still out there – FX and Libor, some of the US RMBS stuff – can you give us any feel for how much of that – and I know we don't know what the number is – but how much of that is legacy that will be likely to be non-core versus not? It's a difficult one.

Tushar Morzaria

You appreciate that I won't be able to give you guidance on that – it's facts and circumstances at the time and I just can't be definitive on that, and I obviously am not going to be able to comment on those kinds of investigations that are kind of on-going. So sorry but you'll have to wait and see when we get there. Chris?

Chris Wheeler

Chris Wheeler from Mediobanca again – Ashok sort of answered my question [on Thursday] on your, somewhat against the grain, move of the UK corporate into retail, but you've also taken wealth and put

that into retail – and if anything that’s the business that most of your competitors have moved even closer to the investment bank rather than to the retail bank, if they have one. Tom Kalaris, when he built the business with project Gamma was very keen to point out how that was going to be the big focus. Can we assume that wealth isn’t perhaps now a core business – it was a grower, I think, under Bob Diamond – is it something now that you’re sort of constantly reviewing and not making further investments in?

Tushar Morzaria

No – absolutely not, it’s definitely a core business – absolutely, we feel it’s one of the more exciting aspects of growth actually, for us. But what it isn’t, it isn’t a world-wide, all things to all people – it’s not the project Gamma type wealth business. That was a great strategy at its time, but to be perfectly honest, and I’ve seen this from other institutions as well, the compliance and regulatory regime about being wealth advisors on the ground in so many different jurisdictions – unless you’ve got massive scale and you’re really established already – it’s very hard to become established, the scale is very important. So our wealth business is really focused to the markets that we already have scale in and are established in. So it’s a really important business to us. It will grow, and quite exciting growth – we’ve had some very capital-light business as we’ve seen with others, but I will be surprised if wealth ever gets close to £1 billion pre-tax or anything like that. It’s not going to be a block-buster, massive business, but it is a very intensive, profitable business, but just not a gigantic business for us.

Chris Wheeler

So are you stepping back from Asia? Because emerging markets is one of the areas obviously you will reduce exposure.

Tushar Morzaria

The footprint that we reset last year is the footprint – so we backed out of 200 countries or something like that, so that is the same footprint. There is really no change to the wealth strategy as a result of this. No fundamental change in the strategy at all. If anything there’s more alignment to what we were kind of doing anyway. It just makes it easier when it’s everything in the same division – some of the operational aspects of it can get more efficient.

Chris Wheeler

As a follow-up – obviously the retraction in the FT today on the job losses and changes in the UK retail shows how sensitive that is to you guys – given what you’ve been through last week – but it seems inevitable, and there’s talk of Lloyds today announcing changes to its network. This seems to be something which is going to be going through quite a big change – without putting it on the table, over

what time period do you think we'll learn about how you're really going to reshape your UK business to respond to all the digital issues that are coming through?

Tushar Morzaria

You know it's kind of happening. I don't think that people are expecting us just to chop 500 branches out on Monday morning – I don't think any bank is going to do that, it's a constant kind of evolution, and really it's as simple as following what customers want. So a good example is our Asda pilot, which is early days, but it's a decent start, and if we see footfall and transaction volumes increase because it's convenient, they want to do things out of hours, they like doing it while they get their groceries – we'll do more and more of that. So that will be opening up new sites rather than net reduction probably. We see a lot more going through digital. I'll talk to you about, say, mortgage applications and how many of them are going through our digital platform, now unsecured lending too – a lot of that is digital now, so we'll follow our customers around but if everyone is waiting for Barclays to announce a gazillion branch closures on a Monday morning, then they're probably going to be waiting a long time, it will be evolutionary. It won't be a big bang approach.

Chris Wheeler

Thanks.

Ian Gordon, Investec

Hi, it's Ian Gordon at Investec – two please – just following up on UK mortgages, obviously you've been more enthusiastic about it this quarter – you gave share away at the back of last year – I don't think I know your gross number for Q1, but can you just talk about your aspiration in terms of growth share going forward?

Tushar Morzaria

Yes, growth share grew quicker than the market as well as our stock share, so both are geared towards more the south-east of the UK. So that part of the UK economy is doing better than other parts so that's helpful for us. Still very conservative lending probably generally compared to our peers, so we still pitch around the 70 per cent plus or minus loan to value, and our stock sort of in the 50s, so no real change in risk appetite. But due to competitive pricing that we're [still] making very attractive returns on and good automation and customer experience in terms of the application processes has worked quite well for us. We've also been quite a steady continuous presence in the mortgage market through the crisis, so we haven't been in and out, in and out. So I think through our distribution channels outside of the branches, that continuity seems to be feeding through as well. So it's quite a nice business and, as I say, we don't really play aggressively in the buy-to-let space, we don't really play aggressively at all in the 95 per cent

plus mortgage space. So it's quite a nice steady growth with very good risk characteristics. As I say we're growing quicker than the market, and we're not having to flex our risk appetite, so it's quite a nice position for us to be in.

Ian Gordon

Thanks – and then just the other one – on interest rates swaps, what you're saying. You dealt with the adequacy of your provision relative to the FCA scheme last Tuesday, and you – like the rest of the market I think – have had zero consequential loss claims settled so far. Can you just sort of scale the potential risk from that, and indeed potential claims falling outside the FCA scheme, what's your attitude to it, and should I think of them as small relative to the 1.5 bn provision?

Tushar Morzaria

Yes – the two risks out there for us and others are consequential loss, as you pointed out, and also a sophisticated counterparty. The scheme's all around unsophisticated counterparties. We haven't seen really much at all in terms of consequential losses – as you pointed out – but I think the hurdles that someone will need to go through to prove consequential loss are quite tricky. So obviously it could happen, but I think it's quite a high hurdle rate to go through. It's an open-ended thing, so we'll just have to see, but it's quite a tough thing, I think, for folks to prove. In terms of sophisticated counter-parties, we've obviously seen some – you saw Guardian Care Homes, the Graisely case, that's one example. We haven't seen a whole load of others but that doesn't mean there won't be. The reserve that we have in place is obviously excluding consequential loss and sophisticated counterparties. We haven't really seen much of a pattern emerge – something to continue to monitor.

Ian Gordon

Thanks.

Tushar Morzaria

Chris – and then I'll come back round.

Chris Wheeler

Thanks very much, just a couple more questions if I may – the first one was on the dividend and the payout ratio – are we to think that your 40 per cent is your set-in-stone number? So if you have a transition year [in 2014] and you print 15 pence of earnings or something, you may actually have the dividend go down year on year below the six and a half pence from last year? Or is the progressive dividend policy also important? So how to think about that dividend, and what the PRA think about the dividend? And

the second question was on your minority interests and your prefs. So you've got about 400 million a year coming through on your old preference shares. Is that something you could manage down, because obviously it's a big chunk of net income coming out, but maybe there's something you could do on that, so maybe how you're thinking about that? Thanks.

Tushar Morzaria

So on dividends, we'll strike dividends off group adjusted profits. Then it's really a matter for the board, so I don't think it would be appropriate for me to pre-empt what the board might decide [in that case]. So I probably should just say that we're committed to a 40 per cent pay-out ratio. What that really translates to in pence per share is really something the board will need to deliberate on, but certainly a commitment on the dividend, at least on that basis. On the minorities and prefs – again a little bit hard for me to comment. We'll constantly look at ways of optimising our liabilities structure. It's quite complicated these days, because while perhaps pref aren't conforming tier one necessarily any more, they may provide value in terms of GLAC or PLAC or whatever we're going to call these things once the rules are really established – which I'm hoping is by year-end. I understand that the Basle Committee that's meeting in Brisbane later this year – one of their objectives is to finalise PLAC/GLAC/MREL – whatever we call it. And then prefs may or may not have a part to play in that, as will other types of old hybrids or other forms of issuance. So hard to be pre-emptive, but we will absolutely continue to optimise our liability structure, and to the extent that can be done through liability management exchanges, then we'll absolutely look to do that. I think people should just bear in mind that just because it's useless for tier one doesn't mean it's completely useless at all. It still may be attractive given other loss-absorbing capital requirements.

Chris Wheeler

Thanks.

Tushar Morzaria

Thanks – question in the corner.

James Chappell, Berenberg

James Chappell at Berenberg. Tushar, I just wanted to ask you on slide 11 where you talk a bit more about capitalising on the strength of existing client franchise – and there are really I suppose three questions from my perspective – one, you talk about a tiered service model based on client profitability – can you give us an idea of how the business used to focus before, and is this quite a big change? I suppose the second one is have you begun informing your client relationships of whether they've made the important or not-important list as to servicing, and what the reaction has been? And thirdly – how long is that process going to take to re-tier the client list, to change mandates, in that situation please?

Tushar Morzaria

Yes – a tiered service model, it's not rocket science this stuff – we've probably all experienced it in everything we do with a customer for whatever, whether you're in the supermarket, the petrol station, wherever. You'll get a level of service and coverage that's commensurate – now that already exists, no doubt about it – we already have. We already have our clients tiered in terms of how important they are. I think all this is saying is it's an intense focus on returns as much as it is on top-line. I would say that we were probably very focused on growth in the investment bank historically, we were very top-line focused, and perhaps less focused on returns and we're going to be much more returns-focused prospectively.

In terms of communicating to clients – again you're not going to be called up by the non-core unit who's focused on firing clients “hello, my name is John, I'm pleased to inform you you're a non-core client and can you unwind every trade with us?” We're going to be a bit more subtle than that. It began on Thursday so its super-early days, but we had calls going out first thing in the morning, as the market announcement went out, to all our top clients by the most senior relationship managers and coverage bankers and coverage sales force to make sure they knew exactly where they stood with us. Pretty much all of our clients will probably have been contacted by now, is my assumption, through one form or the other, and we'll work through that. We haven't created a non-core client group as such. That would be a bit peculiar if you're a client and you get called up by the non-core group. So it should be a very seamless experience for them. But we'll manage it over time – how long it takes to sort of manage through, it sort of varies – obviously some guys that are purely trading with you on price and execution – it's a pretty straightforward conversation because they're really only interested in price and execution. If we're not in super-long-dated complex derivatives – that's a pretty straightforward conversation. It gets a bit more subtle when you're in, say, the fixed-income financing business, when you're trying to look at what they do with the bank in aggregate, and whether we'll continue to extend and roll financing for them, and that depends on their maturities etc. And that's where I keep coming back to it being a transition year for us, as we do that reset. So the comparatives to previous years – it will just be a bit messy for the next quarter or so, as we work through that. I think one more, I think – so who hasn't asked a question yet? Go ahead.

Shailesh Raikundlia, Espirito Santo

Shailesh Raikundlia from Espirito Santo, I have just one question related to section 165 really, in the US. I'm just trying to get an indication of how much of the 400 billion of the leverage that's going into the non-core is related to the US business, and probably give us an indication of where we are in terms of leverage and capital in the US currently? Thanks.

Tushar Morzaria

What I would say to that is – was it you, Martin, that wrote that research or one of your colleagues? I don't think you're the only guy that's quoted but it's not a bad estimate. You took it obviously from Barclays Capital Incorporated's published accounts and the related entities - it's not a bad estimate. It's not everything – it's slightly different, but given it's the biggest entity; it's not a bad estimate. So I'll just refer you to the several analysts that have written that kind of research, it's reasonably good. The deleveraging that we have in place, though, is more than adequate to cover that. The only real issue for us for Section 165 was leverage capital in the US. At least in my mind, this completely takes it off the table. The only reason why we haven't shared those plans with you in detail, and this is a really important point, is that we have to submit our plans to the Federal Reserve and have that dialogue with them, and we haven't done that yet, no bank probably has done that yet – but once we've done that we'll obviously share with everybody – but it's not something that's of a big concern to me.

Shailesh Rai

Thanks

Tushar Morzaria

I think with that, I shall let you get back to the rest of your day, but thanks for joining me and hopefully that was helpful.

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