05 November 2014

Barclays PLC

Sell Side Briefing Q3 2014 IMS

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

Tushar Morzaria

I'll just make a few opening comments, maybe just to remind you of some of the key points from last Thursday's third quarter earnings, and then just go straight into Q&A.

The last couple of times I've been up here, I've always said there are four things that I'm particularly focused on seeing, as a near-term measure of whether the strategy we announced in May is working according to our expectations. Just to remind you again, first and foremost, do our Core businesses, in aggregate, generate double-digit returns from the outset? I'm pleased to say that we are doing that. We're at 10.5% year-to-date ROE for our Core businesses. So we feel pretty good about that on day one, where we're at the right level. Obviously, we're targeting 12% or greater in 2016, so we feel good about progress there.

Is our Non-Core unit shrinking? Again, you've seen the numbers. I'm pleased to report that, yet again, we've reduced the size of our Non-Core footprint. Whether you measure it by leverage, risk weighted assets, headcount, or booked losses, if you like. So that's good progress for us.

Thirdly, are we building capital? And, again, I'm pleased to report that we made decent inroads into that. You saw our CET1 ratio improved by another 30 basis points in the quarter, and if you include the effect of the Spanish sale that we expect to close around year-end, that will be another 20 basis points. So we feel good about progress there.

And then the final one is just the book value of the company. While we're doing this fairly significant transition, are we able to hold and grow book value over time? Again, I'm pleased to report that this quarter was successful, and we've been reasonably successful over the course of the year. We did grow book value this quarter. Some of that was a reversal of the FX impact that we had in the second quarter. But even if you strip that out, there was a genuine increase in book value, and that was after

absorbing the loss on the sale of Spain. So we account for the loss immediately but we don't get the risk weighted assets benefit until we actually close the sale.

So I think on those four measures, quarter by quarter, are we making progress? It feels like we're continuing to head in the right direction. In terms of guidance from the call, just to call out a few numbers that I guided to, and I'm happy to take any more questions on this that you may or may not have. I did guide on impairment; we booked our lowest quarterly impairment number of the year, thus far. Impairment will be higher in the fourth quarter, so you should expect a higher impairment charge in the fourth quarter. There are a number of factors behind that, which we can get into in Q&A, if that's of interest.

CTA; we did guide in May that we would expect to spend about £1.6 billion CTA for this year. We think that will be more like £1.3 billion. We're deferring £200 million of that £300 million saving into 2015, but expect that over the life of the programme, we should get that done and keep that £100 million under spend for shareholders.

I talked about costs. Just to reaffirm, we're still targeting a £17 billion cost base for 2014. And again, I'll remind folks, as we get towards the end of the year, it's getting less and less risky, but these two risks still remain. One is foreign exchange rates. We have seen some reasonable strength in Rand from where we anticipated over the course of the year, which is not so bad because, obviously, we get better Rand revenues as well. But it does put some upward pressure on our £17 billion so that's something just to be mindful of. We'll see how the Rand goes over the rest of the quarter. And of course, any unanticipated conduct or litigation. We think we should be able to cover most things, but it's quite a long close in the fourth quarter. We will keep the books open until well into February, so things may or may not happen.

The third thing guided on was bank levy. This is, obviously, a little bit tricky for everybody to model. And expectation is somewhere around £570 million. There was an increase in the levy last year of about 20%, and actually, if you want to have all the risks on the table, the budget for this year is on 3rd December. I'd be very surprised if the bank levy doesn't increase again. For those of you who are familiar with it, the government targets a revenue number, it's a revenue raising exercise, and if they fall short on that, they just flex the levy to make up the shortfall. There is a chance that that levy gets applied to 2014. It's not my base case assumption, my expectations have been applied for 2015, but there is that slight risk out there. But I think £570m is probably where we'll end up.

We talked in the IMS, and I think I covered it on the call as well, about Non-Core income and that you'll start seeing a fairly significant reduction in Non-Core income. Somewhat obvious in some ways because we've sold a lot of assets and we've disposed of a lot of businesses, some of which we've announced, like Spain, but lots of businesses that we haven't announced that you'll probably be familiar

with. The other one that we've announced is UAE Retail, for example. But there are many others that we haven't announced, and as those disposals close, obviously, income shrinks commensurately. But we can talk about the trajectory of Non-Core beyond that, if that's of interest.

And the final thing was we did have a question on was our Equities performance. We, obviously, under performed in the third quarter for the reasons we talked about on the call. I think you'll see that business gets back to normal levels over the course of the quarter. We're not at normal levels yet, at least that was the indication I gave on Thursday, and I think we'll get closer to normal levels. We may not be at normal levels even by the end of this quarter, but we'll see how that plays out. But just to remind folks of that.

And I think that's it. Why don't we just go around, table by table, and just ask one question per table, and we'll keep going until people run out of questions.

Michael Helsby, Bank of America Merrill Lynch

Thank you. Morning, everyone. Just to take you up on the cost guidance, because I think there's been a bit of chatter in the market that you're stepping back a bit from your cost goals. So you've got about £100 million per quarter of conduct included in that £17 billion of cost guidance, but there is some conduct, obviously, below the line as well. Can you tell us, within your £17 billion, have you allowed for any above the line incremental conduct charges in Q4, and whether you've allowed for any above the line in that £16.3 billion of guidance for next year. Thank you.

Tushar Morzaria

Yes, thanks, Michael. The answer is yes to both. So we would expect to absorb that within that £17 billion, and £16.3 billion for the next year. If there is such a thing, regular way litigation and conduct, I'm hoping there isn't such a thing and this is a temporary state we're in, but for the very significant items that are, perhaps, more industry wide in nature, we will call them out separately, and you saw us do that with the FX provision that we took. But outside anything of that scale and type, you've seen the £309 million we've taken to date, so that would have had, for example, the client money fine that we took in the second quarter. There was an SEC fine that we took in the third quarter, that's public. And lots of other things that are in there that aren't so public. Small amounts of customer redress, for example. When I say small, it’s stuff that we wouldn't individually call out. So we do budget for that and we would expect to absorb that above the line within our £17 billion and £16.3 billion. So that makes it a little bit tricky to forecast.

Michael Helsby

So can I assume a £100m quarterly run rate, on average?

Tushar Morzaria

That's probably not a bad run rate. It's as good a guess as anyone. We'll try and keep it as low as we can, but it's not an unreasonable place to be.

Manus Costello, Autonomous

On costs, you've given us the detailed guidance for the Group for this year and next, then we go down to Core in 2016. I'm struggling in my model to know what Non-Core costs are going to do over that period, because you obviously talked about the revenues coming down quite sharply. Can you give us an indication of how quickly the trajectory of those costs falls away into 2016?

Tushar Morzaria

Yes, that's a good question. So the most important thing I'd say on Non-Core is to reaffirm the guidance that we gave. Our objective is to have dilution of ROE at the Group level in 2016 to be no more than 3%. But during the period in which we get through to 2016, we'd expect to operate between the negative 6% and negative 3% tramlines. And you've seen us do that thus far this year, reasonably successfully. You'll have to make your own estimates as to what costs that would imply, based on some meaningful reduction in revenue that will naturally happen. I would say that it's like in any other business, revenues will adjust quicker than costs do.

Sometimes it can be very synchronised, so for example, the sale of the UAE business. It is exactly synchronised because we're disposing of an entire business. And if you're disposing of, for example, a legal vehicle with all the people, Spain's a good example of that, where things will go together. For asset sales or derivatives restructuring, there is definitely a time lag. So costs will adjust and will come down, but there will be a lag effect. You see that in the Investment Bank Core, as well, as you see revenues adjust but costs trail that. Just the nature of that particular business.

Joe Dickerson, Jefferies

Could you discuss Friday's announcement from the Bank of England on the leverage ratios; how it came out versus your expectations and if there are any consequences in terms of capital planning? Certainly relative to my expectations, it seemed a little bit better. Your Core capital's at a very respectable level now and you're going into the next year very strong. Can you talk about all of them in the context of capital planning? Thanks.

Tushar Morzaria

Yes. It probably doesn't really change our capital plans that significantly. Why is that? Because I firmly believe that for us, as a Group, getting to 11% fully loaded CET1 ratio and a 4% leverage ratio relationship is still important. That's obviously now going to be at least above the pre-counter cyclical buffer level of leverage ratio required of us in the UK, and we want to get there as soon as we can. But that sort of relationship feels about right for the types of businesses that we're running. And I think once we get there, then we can talk about what buffers we may need to run above various regulatory minimum. But it probably doesn't really change our plans, at least until we're at an 11% and 4% type relationship.

We've always guided about what kind of management buffer we would need above 11%, and that might be much more situational, depending on where we find ourselves in the cycle. For example, the one piece of the prudential framework with regards to capital that we're still going through is the stress testing framework, the PRA, which will come out in mid-December. I think that will be quite informative, as well, as to how this fits into that structure. But I think, for now, it's full steam ahead with the plans that we currently have, no material change.

Yafei Tian, Citigroup

Yes, I just have a quick question. The leverage ratio, first of all, came a little bit lower than what the market was expecting. And the question is really around how you mentioned that leverage ratio is going to be applied across divisions rather than at a Group level. How does that affect your way of thinking across divisions in terms of how do you plan your asset allocation and your capital allocation?

Tushar Morzaria

You're right, we'll obviously make sure that we manage leverage at a divisional level, rather than just at the Group level. The way I'll be thinking about it and I am thinking about it is first and foremost, the Core business and Non-Core business. It's very hard for you to work out these numbers because you won't be able to see how we've allocated capital across the businesses. But I think I said on the call that we're operating close to a 4% leverage ratio already in the Core business, and you could infer from that that the Non-Core business has higher degree of leverage than that.

And that, I think, is okay because the Non-Core unit is a temporary unit, and that's where we're reducing leverage levels quite rapidly. You've seen us make, actually, pretty reasonable progress on there. We took about £60 billion of leverage exposure out of that unit in the third quarter. You've got to remember, when we set out the expectations of getting to £300 billion of leverage in the non-Core unit at the end of this year, at that time, we were under a PRA regime. In the first half of the second quarter, we switched to the Basel regime, which is a more conservative regime, but we'll hit that £300 billion

even on that more conservative measure. So I think that's how you should see the leverage of the group balance out.

You should see substantially more decrease in the Non-Core. I think we are, in the aggregate, operating at just about a bit under 4% at the moment in the Core, but we'll get to 4% pretty fast. Then within that, leverage is part of our capital allocation mechanism within those divisions, but it's a portfolio of businesses and we'll manage it as a portfolio of businesses, and make sure that no one particular division is offside on minimum leverage levels.

Martin Leitgeb, Goldman Sachs

Good morning. Just two questions on the Investment Bank. One on the implication of the leverage ratio; I think Tom King has been previously mentioning that he was planning for higher than 4% leverage requirement at least within the IB, if I understood it right. And with the requirement out now on Friday, and that being somewhat lower, how does that affect the subdivisions within the Investment Bank, and in particular, Macro. I think a lot of thought has been that obviously Macro, being low risk rated, a lot of attention would need to focus there. Does Friday's announcement mean that you need to reshuffle less than that? So in terms of execution risk, there's less going forward. And then maybe to that, if there are any kinds of splits, in terms of risk weighted assets, Macro, Equities, Credit you are looking for in this division, you can share with us. And secondly, in terms of IB revenues, and I think the starting point here, 2013, was £8.7 billion. I think the run rate at the moment, we're roughly £6 billion. You mentioned that you will see a return to a somewhat normal run rate. What is the normal run rate and the current opportunities that we should think of? Is that roughly £8 billion or how should we think about that?

Tushar Morzaria

So taking your first question on leverage impact to the Investment Bank and the mix of risk weighted assets and leverage. Again, I would probably go back to the response to the earlier question where, at this stage, no real change. And I still feel that we'd prefer to accrete capital and get to this 11% fully loaded CET1 ratio and 4% leverage ratio relationship as soon as we can. If leverage minimums were going to be set at much higher levels than 4%, that would have had some implications, possibly to the Investment Bank, possibly to other businesses. But I think the plans that we had in place in May are consistent with where we've ended up, so I don't think we need to make any adjustments at this stage, be it to Macro, be it to Equities, be it to whatever.

I would say that, of course, we're not complacent about the levels that we are at the moment. If we have businesses that can't generate appropriate returns on the capital that we have allocated to them, based on the current framework that we're operating, we will make changes to those businesses.

That's something that's true, again, not just to the Investment Bank; there's businesses outside the Investment Bank that are very firmly in our crosshairs there as well, were they to underperform.

In terms of run rate in the Investment Bank, one thing I would say is, and I think I've said this numerous times, I'm very loathe to start throwing revenue budgets out in an investment bank business because you all hit those revenue budgets. Investment bankers know how to make revenue targets but you quite often don't like the outcome, so we're much more focussed on returns, and we've got some work to do to get from the 5% return to something that's confidently a double-digit and above return.

In the revenue environment we'll do the absolute best we can, based on the nature of the market that we're operating in. I do think you've got to look through it on a trend basis as well. It will be difficult to take any one quarter and multiply it by something. As you guys know, it's not that kind of business; it's not like our retail banking business. It's much more difficult to predict certainty in the near term. But you have a look through on a trend basis and make sure that the capital and cost line up alongside that, generate an acceptable return, and if we feel that that doesn't work, we'll have to change our footprint accordingly or change those two levers accordingly, particularly around cost of capital. So, I'm not explicitly targeting a particular revenue number. We're much more focussed on a return and will continue to solve to get to the right return.

Peter Toeman, HSBC

I think we all know that the leverage ratio came out very different from the initial framework that was filed back in August. I wondered if you might have some insights into what the FPC might have looked at or what arguments they might have responded to from the industry to maybe get to a slightly more sensible level, and whether, in fact, we're now going to see a less adversarial approach between the UK banks and the regulator.

Tushar Morzaria

Obviously that's a question best asked of them, but the treasurers, collectively, for UK banks, sent a letter, and I think the FPC obviously took on-board some of the comments and feedback the industry had, and it's nice to see that constructive, healthy dialogue. In terms of where we go from here, I wouldn't call the relationship adversarial. I mean regulators have a job to do. I think they do a very good job of it. They don't cut banks any favours, nor, I think anybody would expect them to. They want to make sure that the industry's appropriately capitalised, appropriately organised, and appropriately managed, and we're very respectful of that. We work with them, because we want to do that as well.

So, people think of it as very adversarial. It's absolutely not the case. We work very closely and very constructively with each other, and we're very respectful of their objectives. And their objectives really, in many ways, should be our objectives as well, even though we're running a commercial organisation, so at the margin we will have different things we'd like to achieve, but we all work very constructively together to achieve them.

Edward Firth, Macquarie

Just two related questions: I'm not really clear why the disappointing revenue performance in the Investment Bank doesn't feed through into a beat on the cost target, because I would have thought against all expectations that must have come in much lower, so just your comments on that. And related to that, across a lot of areas in the Investment Bank, you lost a lot of market share in the third quarter, and I think particularly around investment banking areas. Is that something that you managed and expected and is this is now the new level of market share that we should forecast going forward, or is that actually a disappointment to you and you'd expect to see some sort of recovery as we go into next year?

Tushar Morzaria

Yes, good question. So on the cost side of the Investment Bank, I come back to the point about cost lagging revenue levels, and the Investment Bank probably has that trickier than many other businesses. One of the reasons for that is it has a very compensation-heavy cost base, just like every other investment bank, but for us that compensation's very heavily deferred so we are still paying for 2013 compensation in 2014's accounts, as we are 2012 and 2011 for that matter. So that deferral will, over time, roll down and then get back to perhaps current compensation levels, but as an accounting matter, this will just take place over a 2-3 year timeframe.

Edward Firth

So does that mean that as we look into 2015 and 2016, that's where the benefit should start to come through?

Tushar Morzaria

That's one of the benefits, yes, absolutely. Now, one way to do that, you may or may not have seen in our full-year results announcement for 2013, it's page 48 there is, in the compensation section, a lay out how the deferrals get accounted for in the outer years so people get a sense of the profile. So that's one thing.

Second thing, of course, is that, unfortunately, within that number, even though costs in the Investment Bank are down quite significantly, without the benefit of deferrals rolling off, we also have elevated legal fees that we've absorbed now. I'm not predicting those legal fees are going down any time soon, as much as I'd love to think they are. But at some point, hopefully, they'll improve, but it's hard to be predictive on that.

We do charge conduct and litigation, going back to the earlier question to the businesses. We don't leave that in Head Office. You see our Head Office has actually got very little in there. Unlike many other corporate centres that may put a lot of stuff in there, we allocate it all out, so the IB's absorbing its share of that, and reducing its cost despite elevated legal fees, elevated litigation settlement inside the IB, not allocated outside, and deferrals.

And the final thing I'd say is, this is a one-time effect, but under CRD compensation rules we've had to limit the amount of the relationship between variable pay and fixed pay to a 2:1 ratio, which meant that we've increased fixed pay. Now, what happens with this is, in prior years, that fixed pay would have been variable pay, which would have been accounted for as deferred compensation in subsequent years. Now that fixed pay hits us this year, so we're almost sort of getting a little bit double-dipped this year. So I feel very good about the progress we've made. If you look at those things, we've absorbed all of that stuff and costs are down, so I think that bodes well for the future and the cost discipline is there.

And the other thing I'd say is if you look at the company in aggregate, this is one of the things I think as a company we are quite proud of. We spent £18.7 billion – costs above the line, excluding PPI charges and what have you – last year; restructuring charges last year of just under £1.3 billion, so in round numbers about £20 billion. This year, we expect to hit our £17 billion or so number. With £1.3 billion or so of restructuring that will be £18.3 billion. It's £1.7billion less in a calendar year, and next year we hit our £16.3 billion with about £700 million of restructuring. That will be £17 billion. So in two calendar years, to reduce the run rate by £3 billion, I feel pretty good about that and that makes a big difference to the profitability of the company. So, I do think the expense discipline is quite strong and we're making good progress, but you will see the delayed effect. Revenues will adjust quicker than expenses.

Your second question on market share: if you look at the Investment Banking division, market share's actually reasonably okay. If you look at our two most important markets, the US and the UK, we were fifth in the first half of the year in US fee share (deologic) and we're sixth at the nine months, so it's a very tight four, five, six and seven, banded together. I don't think you'll expect to see us anywhere above four. I think the top four slots will always be taken by the US domestics, and there's a jostling of positions, but that's a profitable zone for us to be in.

We're number two in the UK in deologic fee share. We actually increased our fee share year on year somewhat slightly. It's a marginal increase but it's a strong number two, a reasonable distance between us and our next people along. So, I think in Investment Banking we're doing fine. I feel pretty good about that business.

Equities, we definitely did lose market share and those were the reasons that we discussed on the call. Macro is the business that's had the most adjustment, and it's pleasing that in a quarter like the third quarter when it's had the most adjustment, and it did benefit from the upswing in FX volatility, as did many other banks. We got our fair share of it, and even on a Sterling basis, our revenues were up year on year for the quarter so it's encouraging to see that. And our Credit business is relatively straightforward these days. We're not big in emerging markets, we're not particularly big in securitised products, we don't do much in distressed debt. It's really an ancillary secondary trading business to our debt capital markets activities, so DCM fees in the third quarter were as low as they've been for a couple of years and that's just has a direct impact to our credit trading business. So I think DCM fee share is probably a better measure of how credit trading is going. We don't do much, other than support originations; quite a simple business for us.

So, probably the disappointing area was Equities for these somewhat external factors, but that's something we need to deal with. I think the other parts of the business are doing okay.

JP Crutchley, UBS

[Can you get to an acceptable RoE in the IB principally through cost reduction, with the current IB structure and capital allocation?]

Tushar Morzaria

Yes, so the bit we haven't talked about in the cost base of the Investment Bank is still the infrastructure side, but that is obviously the hardest thing to do completely because unplugging systems is difficult. Work around that part of the business is the single biggest hardest thing to do. Now that is something we're very, very much working on, and have very clear plans around and will be unplugging systems, and you should see reductions in our infrastructure come through, and that will be a driver of our cost improvement over next year and beyond.

And to come back to your question, I mean capital isn't completely off the table but we don't expect to be making big capital reallocation decisions just because of the quarter's results and we're still early on in our transition, but if it's not working, we're not going to bang our heads against a brick wall. We will change the business model and the IB managing team are as committed to that as we are. We're all signed up to generate acceptable returns in the IB, and that is our single objective. That's what we

intend to do, so we're not going to be blinkered about this. We have a plan. We're going to see it through. If it's not going to work, we're going to do something else, but it's okay at the moment.

Chintan Joshi, Nomura

Good morning. Can I focus on the traditional bank, the three divisions there; can we talk about your income growth expectations and also what the fee income line might do, given some of the headwinds, volume growth expectations, not seeing much in PCB at the moment - how do you see that developing? And linking into that, your Core operating expenses, if I assume some seasonality, is running at about £14.8 billion, the target is less than £14.5 billion, so not much there and more than a year to go, so how should we think about that within the traditional bank cost line development as well?

Tushar Morzaria

Yes, your first question I think was around margins and volumes or fees. Volumes are growing quite nicely in the consumer, corporate banking businesses. Our current account balances have increased, our savings accounts balances have increased, mortgage stock is increasing, our production of new mortgages has grown quicker than the market for 23 out of the last 24 months and we are probably at a high in our share of UK market share on mortgages. Even if you look at SME lending or our share of corporate commercial banking in the UK, it's right where we would expect it to be and continuing to improve. So, I actually feel that the business, for the products we're interested in, pretty much every product you would imagine, we're doing very well. I think volume growth isn't going to be exponential. We've preserved or grown NII without NIM expanding significantly. It's really been driven by volume growth, offsetting any NIM compression that we have been experiencing. And I see that is a reasonable thing to do prospectively. NIM did expand in this quarter, particularly in the PCB segment, but I'm not sure that's going to be a continuing trend. I think NIM will probably be more stable. Card volumes have also increased as well and offset, if anything, slight NIM compression there. NIM will compress in Cards simply because, as we grow businesses outside of the UK, it's a lower NIM business, particular in the US, so profits should go up, but NIM will come down, and returns will actually come down as well. ROE will come down as the balance of that business become less UK-centric.

In terms of costs within the traditional banking segments, costs went down about 6% in PCB, about flat in Card. They both have quite different dynamics, so in PCB you're seeing really the benefits of the transform initiatives from the previous year; some of them are just footprint changes, some improvements in the way our call centres are managed. The very interesting thing is the more you automate your retail banking proposition, what we're finding actually is call centre volumes drop quite dramatically as well. So you're getting this Holy Grail of it's better for the customer, it's better for us, it's all of those things. I've given this story probably the last time we were here, about how you can get a personal loan with six taps on your phone, that kind of thing. That improves our cost: income ratio

dramatically and we've seen that benefit come through. And I think you'll continue to see it; you'll see some continued expense improvement.

So we feel pretty good about the trajectory that we have going there. We are committed to the £14.5 billion expense base in Core or lower than that in 2016 and fully intend to get there.

Chintan Joshi

It seems easy, that's why I asked the question, to get to £14.5 billion on current trajectory, which is what I'm trying to figure out where is the pressure coming from? Because £14.8 billion, 18 months to go, £14.5 billion, you've got more headcount reductions to come, Core IB expenses that are going to come down, a lot of things that are in the right direction.

Tushar Morzaria

There's continued investment in there that we are spending within that number as well, and Card is a good example. So we've got to continue to invest in innovative products, innovative technology, innovative distribution channels. Card has been a great example of that; you've seen the contactless payment and the bPay band and how they're now using it for Transport for London. That stuff is all paid for above the line. And if you look at our PCB business, it's the same kind of stuff going on. There's SmartSpend, that you'll see for those of you who are Barclays customers in your online banking, you'll see the SmartSpend accounts set up for you there. All of that is investment to make those products and services available to customers. All above the line. So there is on-going fairly significant and very exciting investment going on there. Wealth is another good example as well. You'll see a lot more digitisation in wealth as well.

Some of that has been in CTA automation, but as our CTA budget draws to a close, it doesn't mean we stop investing; that becomes business as usual investment above the line, rather than the kick-start investment we call out separately.

Leigh Goodwin, Royal Bank of Canada

I just want to follow up on Barclaycard, actually. I wonder if that's what we should expect going forward. Whether that sort of rate of expansion that we've seen recently is one that we should extrapolate, but also whether acquisitions of books is part of your strategy and whether there's any geographic focus on this and to bring it all together, what you expect that might do, both for margin and also for credit quality?

Tushar Morzaria

Yes, so, balance transfers, we've been quite active in that. Actually, these are quite long-dated incentive periods; some of these go out for 30+ months and has been quite an attractive thing for us. So the balance arrives today but the income will arrive tomorrow. Some people try to look at balance growth and income growth and it's a little bit like revenues and expenses; you'll see it lag a bit. But would we continue to do balance transfers? Where we see opportunities. We're quite careful in the Card business. Anthony Jenkins, as you guys all know, ran this business for a number of years, so he's laser-focused on not moving outside of the credit spectrum that we understand and know well, particularly at this point in the cycle, where everything seems to be going very well. So I think you'll see us retain credit discipline probably more so than under any other Chief Executive, because he just knows the traps of chasing in a business like that; he's been there before.

In terms of acquisitions, absolutely. We have been acquiring books. We don't make a big deal of it; they're not individually significant enough to call out, but where we see opportunities it's been a very successful business for us, more in the United States than here, to be honest. We're already quite scaled and sizable here and not many trades here that are of interest, but in the US it's a much more interesting market and has been a cornerstone of some of the things we've been able to do over the last couple of years. As has building the partnership product effectively, where one of the things that works very well in our favour is that we don't try and make a big deal of the Barclaycard brand in the US. So, for example, someone who signed up recently was Hawaiian Airways and we're their partner card. You won't see Barclaycard probably if you were a Hawaiian Airways customer. But if you looked at your Hawaiian Airways card, you'd probably see it right in the bottom in some tiny microfiche, and that's a selling proposition for us. Whereas if you went to Chase or somewhere else, they would want to see the Chase logo next to the Hawaiian Airways logo. So that product actually works very well for us, as do acquiring books. It's one of the reasons why the UK business is so good. It is a scaled business and you can see that in the cost-income ratio when you have scale, and this thing was super-attractive, because the margin on production can be very low.

I would say, though, over time, if we're successful and we're able to grow the US business quicker than we would grow the UK business, which ought to be the case or, for that matter, our German business, our Swedish business, or whatever, you'll see returns and NIM come down because we have so much scale and size that it is a very profitable market for us. Profits will go up but you won't be able to run an 18%, 19% ROE card business in the US, at least not the kind of space that we would operate in. But it's still a good thing for the company to diversify its income stream. And that's something we're very committed to.

James Invine, Societe Generale

Can I just have two quick ones? The first is just back on costs - are there any head office costs that are allocated to Non-Core that will come back to the Core as Non-Core disappears? And then the second

one is back on capital. We had the leverage outcome last week, we've seen Pillar 2A earlier in the year. What's left until you get absolute clarity on where your capital needs to be, and how would you rank them in terms of the effects they could have on you?

Tushar Morzaria

On costs, stranded cost is an extremely important point that you raise. So the closure of that Non-Core unit has to be accompanied with those costs not rebounding back and staying within the company. They have to go at the same time as the unit itself closes. We have very clear plans around how we intend to do that. And it goes back to the infrastructure thing. So until you've un-booked the last swap on a swap system you can't really unplug the swap system, and until you unplug it you still have all of the paraphernalia of having a piece of technology in the company that has feeds flying around everywhere and are connected. So it's all about clean exits and shutting entire verticals down and you should expect to see that over the journey through Non-Core, so very committed to ensuring that no stranded costs remain as we go through this process. The easiest part of it is when you sell entire businesses, of course that's a clean exit, there's nothing to rebound, but it's where you have large amounts of infrastructure carrying around that you've got to be careful.

In terms of the capital equation, we've obviously got the stress tests for the PRA, I guess in some ways this may be the beginning of how that stress testing regime will evolve. So I think we'll learn a lot on this part of this cycle as to how it fits into the prudential toolkit and how it's going to be used and how it will evolve over time. I think obviously structural reform and ring-fencing is going to be a theme over the next two, three, four years, as we go into 2018 and beyond. I think we have most of the information that we need around that. Leverage is potentially still out there for ring-fenced banks, but you can probably take your cues from Friday as to how to expect the implications there. But really, the stress testing framework and probably some of the minutiae around structural reform are probably the two important things. But apart from that I think we have most of the information that we have.

So that's capital levels. There is, of course, risk weighted asset computational stuff, so you've got the fundamental review of risk in the trading book, interest risk in the banking book and various other things that are going on. I think that will be regular stuff; I'm sure that there will always have some topics like that that will be out there and we'll manage that as we would any other year. But probably in both of those cases my guess is they are probably more of a 2016, 2017 outcome rather than a 2015 outcome, but we'll see.

Raul Sinha, JPM Morgan

You left out TLAC on this, so I was just wondering if you think that you're very well positioned on that. Looking at your capital structure, it does look like it's quite balanced and you've been quite proactive in

issuing debt from the holding company, so maybe if you could confirm that. And then my two questions were, firstly, can you tell us how much dividend you've accrued this year or maybe give some indication? And secondly, why have you changed the impairment model in Barclaycard? Is it something you've noticed or is it something the regulators asked you to change? What's the impact of that? It's just something we don't normally come across. Thanks.

Tushar Morzaria

Yes, TLAC, that's very good point and I should have mentioned that, although I guess we'll know about that in the next maybe two or three weeks. If you look at the PRA transitional basis, the company is between 16% and 17% total capital. If you add in senior unsecured at the bank level, not the holding company, it gets into the high 20s. Now, it remains to be seen if any of that is eligible in TLAC; maybe none of it is; maybe some of it is. But we have been, as a point of principle, beginning to issue more and more out of the holding company. We actually did a deal on Monday, $2 billion of senior unsecured out of the HoldCo. Our ability, if you like, is to rotate that out of OpCo into HoldCo. We've done about £7 billion or so of issuance this year, so if you're able to do that for the next three, four, five years, that's plenty of issuance capacity. It depends on how well the banks are doing, obviously, but this year as an idiosyncratic matter, we've had little difficulty in issuing £7 billion sterling of senior unsecured. Some of that has been out of holding company and if Monday is any guide, and it's probably not a very good number to extrapolate from, but the differential between OpCo and HoldCo would probably be about ten basis points, maybe a bit tighter than other deals that we've seen, but it's always been in that zip code.

So I think our ability to rotate the funding, if it all needs to be out of holding company in good time, if TLAC requirements are in the high 20s, I think that's entirely achievable for us. I think the bigger wild card is if lots and lots of banks are all doing the same thing together just how will the market absorb that level of issuance? Let's see what the final rules are before we speculate too much on that. Back to your other questions; on the dividend, how much have we accrued on the dividend? No change in guidance; 40% of adjusted earnings, so we've seen that that's 16 pence, so 40% of that. No change in guidance there. That is accrued in our capital; as a book value accounting matter you only deduct that from your book value as you pay it or declare it and pay it. That's just accounting vs. regulatory rules, but in our capital, 10.2%, and 10.4% if you include Spain, it's already reflected in that number. The Barclaycard change, it's mostly to do with what we call our repayment plan book. So this is where customers pay as little as £1 a week, £5 a week, £10 a week to pay off their card receivable. It's not something the PRA have asked us to do. It's very much an internal thing and all we're doing is recalibrating. But the impairment we would anticipate is based on the historical experience we've had in that repayment plan book and that will result in an increase. We haven't, I think, given the exact number previously so I won't give it now, but the increase in impairment that you'll see in the fourth

quarter, you'll see it mostly in Card. That's where the impact will be more obvious and we'll probably call it out if we call out the exact number, but we haven't disclosed it as yet.

It will just be a step change, so I would say that underlying credit is quite stable and benign; we're not seeing a tick-up in impairment. That's really just a recalibration of historical loss experience to our existing impairment model. When you project that out over an 18-month time frame that's what you'll see, that catch-up.

Raul Sinha

Is that a one-off impact to impairment provisions in Q4?

Tushar Morzaria

Yes. I mean, of course it will be all realised over time, but it's a one-off adjustment this quarter. It's an 18-month horizon that we project over so it comes back into impairment over that time. So we're constantly projecting 18 months out, based on our loss experience that we're expecting over that time. It's like anything else; if that loss experience happens to be miraculously bad we'll just reverse over time; we're just booking it up front for the next 18 months.

Mark Phin, KBW

I was just wondering within PCB, fees have been coming down quite sharply within the last five or six quarters. Margin was very good in the third quarter. Loan growth will improve, but it's never going to be very large. Are we now at the end of the fee declines?

Tushar Morzaria

Part of the reason for the fee decline, we don't talk about it so much, but you notice that we changed our overdraft charging mechanism, so we reduced fees quite significantly there. You're seeing that put pressure on the fee line. The other place where you've seen fees come down is partly in our corporate banking business, just cash management fees and some foreign exchange fees are a little bit lower. I'm not expecting continuing decline there; the underlying health of that business is actually very good. In fact, on the personal banking side the revenues are actually up over all. It's the mix between the NII and fees; it changes it a little bit. And corporate banking, the underlying metrics are actually pretty robust in terms of our market share and where assets are and where liability balances are for cash management. So I wouldn't read too much into a continuing fee decline that you'll see there.

Mark Phin

Can I just ask a second question, going back to balance transfers in Cards. In your discussions with the regulators is there anything coming back to you in terms of new concerns or on-going concerns in that market?

Tushar Morzaria

Nothing new. We do this extremely lock-step with the FCA. Obviously, we're incredibly sensitive to any conduct type issues. And that's not a Card issue, but for balance transfers, something that we're very sensitive about, we're doing that with the full transparency to the conduct regulators; they know exactly what we're doing and why we're doing it. I think the thing that is very interesting and if you're looking at this from a consumer perspective, the balance transfer period is very long. So obviously there's the suspicious kind of reaction, 'I'll give you a couple months free and then whack you with a big interest rate charge'. It's not at all like that; it's a very elongated period and very carefully managed. And, of course, I come back to the other thing that I said: we're very careful about which cohorts of customers we're targeting these balance transfers to. It's something we've got a lot of data on and we know which cohorts work for us and which ones don't and we tend to operate at the sort of more prime, super-prime end of the credit spectrum. It will vary, but that's generally the place where we feel most comfortable.

Manus Costello, Autonomous

Just a couple of follow-ups from me, please. Some of your competitors have started to talk about the costs of ring fencing being a billion pounds of implementation. Is that a number you recognise, and is it included in your CTA at all? And secondly, one of your peers is now talking about UK retail NIMs going down next year because of asset margin compression. Is that something that you're worried about, or does your lack of meaningful SVR book insulate you from that somewhat?

Tushar Morzaria

Yes. On ring fencing, it's within our expense targets that we've put out. We feel that we'll be able to absorb it. We've only got targets out towards 2015 and 2016. Ring fencing will go beyond that as well, and we'll talk about some beyond that as we get through 2015 is my expectation. But it's included in the numbers that we have out there. In terms of CTA and above the line/ below the line, some of it is CTA. But, I think you'll see the bulk of the expenditure on ring fencing probably take place a lot next year, 2016 and 2017. So our CTA budget you can see, glides down. If we need to do something different, we'll let you guys know. But that's not our expectation.

Manus Costello

So we should assume there's no 2016, 2017 ring-fence specific below the line charge coming?

Tushar Morzaria

Not at this stage, no. If there is, we'll let you know if we need to make any changes to that. In terms of NIM in retail, there is some pressure in mortgages. We have seen some quite aggressive pricing. It is a very competitive market. We have a very, very small SVR book, so that's helpful for us. We don't have a big NIM machine that's getting picked apart through aggressive pricing in the front book. But you can see, our NIM's actually pretty healthy in our business. About 300+ basis points across PCB. So we feel pretty good with that. But there is pressure in the mortgage front book, but it's still at very attractive levels for us. And again, it's different in different markets, and the market that we tend to operate in tends to be the lower loan to value, probably more focused around the southeast of the UK. And margins for us there are holding up reasonably well. And our front book margins are better than some of our back book margins. So, if anything, it's not a bad place for us to be in.

Shailesh Raikundlia, Espirito Santo

Hi. Just one follow-up question on the leverage ratio; it seems like your leverage ratio requirement in the UK is much lower than the US, where you have, obviously, significant US business. Just wondering how you look at that in terms of the capital allocation now, or maybe changing the business model slightly in the US. And also, more importantly, in light of the ring fencing, if that makes a significant change in the way you run the US business?

Tushar Morzaria

Yes. So, we're submitting our US Intermediate Holding Company plans in January to the regulator, as is everybody else. So we'll share that with folks more broadly at the right time. I think, just be respectful of the process, they'll need to see it and approve it, etc. maybe first quarter, maybe second quarter, sometime next year. In terms of our own capital allocation framework, though, I think all banks will have to do this. But we're very focused on getting it right at an entity level and banking generally is going to go to much more of an entity focus than divisional focus of the capital allocation. And we've already done quite a lot of work on that. So, in terms of our US business and the leverage ratio it needs to operate, it's with due regard to local leverage ratio requirements of that business. Obviously in an IHC world, is entirely driven by local leverage ratio requirements at the moment. We're not under that regime, so we need to take a more of a forward view of the world.

Shailesh Raikundlia

Does it implicitly mean that you might have to hold a slightly higher leverage ratio within the business?

Tushar Morzaria

Depends on your business mix, right? So, it all depends. It's very, very hard to be generic on that.

Chris Manners, Morgan Stanley

Good morning, Tushar. Just two questions, if I may. The first one is on the discussion about the UK retail side. Do you think you can tell us a little bit about what you're seeing in terms of demand and volumes and pricing on the UK corporate side? And second question was just about IFRS 9 and how much tangible book value that might bite away when it takes effect on 1 Jan 2018? How you're planning for that? And also, whether that might mean we get an elevated on-going impairment charge too. Thanks.

Tushar Morzaria

So, on the corporate side of the business, how we're seeing that, is probably not as robust as the consumer business. We're probably seeing more volume growth and more opportunities on the consumer side. Our corporate business is pretty good, though. We have a fairly elevated market share, and always has been a good business for us; SME lending as well as high, larger corporations. But it's not growing as quick as the consumer business. Now, that may change. I wouldn't read too much into one or two quarters, but it's the consumer business that is probably powering PCB at the moment. But one thing that I look at very closely, along with our shop, in all of those segments, whether it's mortgages, savings, corporate lending, trade finance, cash management, what's our market share numbers in all of them? And they're actually holding up and improving in almost every category. So we feel pretty good about where we're going on that.

In IFRS 9, to answer your two questions directly, what's going to be the impact on the day we make the switch? We haven't disclosed that yet. I'm sure we will do nearer the time. We're a few years away. So plenty of time to figure that out. It's a hell of an implementation change for us, though. These are lots and lots of models that need to be rewritten and everything like that. It's quite a complicated implementation. In terms of elevated impairment charges in advance of that, I'm not sure I'd necessarily see that. You will know that, for capital purposes under PRA rules, we already take expected losses greater than impairment deduction in our capital numbers. So there may be some refinement of that. The PRA may or may not choose to apply IFRS 9 as a capital matter earlier. Wouldn't surprise me if they do, because they've already done EL over impairment, so it's entirely consistent with how they've thought about this in the past. So that might refine, but I'm not sure I'd see necessarily elevated impairment accounting charges.

Chris Manners

In terms of book value impact, is it, have you even tried to do a bid offer, like 2%, 20%?

Tushar Morzaria

Yes, we have. It's not 20% of book value, no. We just haven't disclosed it, Chris. And I think, sitting here in 2014, it's probably premature.

Michael Helsby

Just a couple of follow-ups from me. I think, in your opening remarks, you mentioned about the Non-Core revenue going to step down. And you kind of alluded that you'd give us a bit more guidance on that. If you could start by maybe breaking out what the 3Q revenue are in terms of the IB, Spain, and, the bits you've not sold, that would be helpful. Similarly, on the cost number as well, if you could give us a bit of an idea on that. That would be question one. And then, question two, just a follow-up on Manus' point on NIM. How big is your slim NIM book?

Tushar Morzaria

Let's go to Non-Core first. In Non-Core we haven't given you that break-out, so I won't be about to on a call like this. But over time, we will help you see the makeup of it. All I would say is to try and help you think through how things may look in the next year and beyond. And perhaps even beginning now, because UAE retail has sold and closed now, we haven't told you what the revenues and expenses are. But that will disappear and has gone, so fourth quarter we'll see the effect of that. Spain, I think we have provided you. I would refer you back to the RNS. So you can literally reverse that out from 1st Jan, both on the cost side and the income side. And that's meaningful to both sides of that equation. Where it's a little bit trickier for you guys to be very accurate, of course, is a bunch of stuff that we've sold that are whole businesses that we haven't announced, so I probably shouldn't announce them here. If you remember on the May the 8th slide, there was quite a profitable chunk of businesses. And these were good businesses. And our good businesses were sold at good levels, but weren't strategic for us. And a lot of them are dropping off. So if you go back to the 8th May slide. We've completed many of them. Not all of them, but some are to be completed next year. But many of them have completed this year because they are good businesses.

Michael Helsby

Are you able to guide on which businesses they are?

Tushar Morzaria

Because I haven't called them out, I don't want to give you the full list. But it would be the ones that you would expect us to be next to; ones that you'll probably already know about, to be honest, that we just haven't made market announcements, so I don't want to call them out individually.

On the, on the securities portfolio, we've sold a ton of CMBS. We've sold a ton of structured assets, a ton of leverage loans, etc. So the carry on those books do disappear. So you'll begin to see that. Every quarter we've sold, you'll see the carry on that book drop down. And you'll see some of that in the fourth quarter, obviously. So I think all I really wanted to just remind people is that, because of the sales that have taken place, income is coming down, and it is coming down fast, and that was really what was in the IMS. Costs for those businesses that go lock, stock, and barrel, come out at the same time. Costs associated with the securities; if I've got a structured mortgage asset or something, there's really not that much cost associated with it. The only thing is the funding drag, if we've got matched funding against it, the funding is still in place. But we have our waterfall of liabilities, we think we'll be able to manage that quite well. But on the infrastructure and the investment banking structure, large back book of derivatives, that's more of a step function. That doesn't come down. If I had 1,000 derivatives and I got rid of 100 of them, my cost essentially doesn't really change much. I still need to come in every morning, mark to market them, reconcile them, do my regular returns, do my stress testing, run my positions, put them to the sub-ledgers. So whether it's 900 trades or 1,000 trades makes no difference. When it becomes 500 trades, I could probably get rid of a decent slug of headcount associated with that. It's more of that step function. And you'll see that step function happen over the course of the year. So it's quite easy to see the revenues disappear by scratching them. That's really why I wanted to make the point; revenues will drop off pretty quickly, whereas costs will come down in a stepwise function over time.

The NIM question - mortgages is a really good business for us. Now, we don't have a large SVR book. So there's an opportunity there in some ways, because other people do, and it's attractive for us to try and encourage folks to refinance out of those mortgages into more current mortgages. So that's an opportunity, I'm sure. Everybody sees that opportunity, and we'll do what we do. But mortgages is a very, very healthy business for us for a couple of reasons. One is, we are quite high up the credit spectrum of risk. So you can see that in our impairment numbers. You can see that in stability of the book. The other thing is, one of the reasons why we're doing quite well in market share and margins are holding up quite well for us is, a lot of our mortgage distribution is through broker channels rather than necessarily just through our own bank branches. And that's something we've been doing over a number of years. So the strength of these broker channels is really, really powerful. So we get a constant inflow of very high quality referrals in from those broker channels at very good margins for us. So our front book production, therefore, is holding up quite well and growing. For us, the market that we're operating in is growing and the market itself. So, over time, I think, for Barclays mortgage business, you'll see front book production at more attractive levels than our back book is at the moment because of your old-style trackers. So you should see the improvement in the NIM over time, and we're beginning to see that ourselves. But you won't see it in any one particular quarter, it's just a steady trend.

Mike Trippitt

How is capital allocated to the mortgage business, leverage or risk weighted assets?

Tushar Morzaria

It's like we do for any other business; we price on both. So we look at the return on leverage capital, as well as the return on risk weighted assets. And depending on exactly where you are, your leverage will be the binding constraint, or risk weighted assets. For us, leverage tends to be the binding constraint in mortgages. But pricing on leverage, it's still very attractive margins. We clear our hurdle rates very comfortably.

Mike Trippitt

Just feels to me like the pressure's on leverage is still upwards. Could you just talk a bit about leverage harmonisation globally?

Tushar Morzaria

In terms of global harmonisation of leverage, it would be a tough thing to do in the US, obviously, because balance sheets are structurally different. You know, we don't have the agency mortgage model that they have. So we have about £130 billion worth of mortgages on our balance sheet. The equivalent US bank won't necessarily need to have this. So I just think structurally different business models will make it very difficult to harmonise leverage ratios. We're obviously at higher levels than Europe and many other jurisdictions. So I'm not sure I sense as much regulatory driven upward pressure, necessarily. But we've always been very clear; we want to run the company well above 4% leverage ratio. So as long as whatever minimums are consistent with that, it's business as usual for us. Within the Investment Bank itself, you know, be careful when you're looking at particularly IFRS assets, because they are different measures. Of course, the derivatives look very different between the PFE calculation and what's on balance sheet, and we've got undrawn commitments. So I would definitely guide you towards looking at the leverage measures, you get two very different outcomes. And again, within the Investment Bank, we've always said, we want to run it with £120 billion of risk-weighted assets and £400 billion of leverage, and that remains the commitment. That's what we're striving towards. For the portfolio businesses that we have in the Core business, that should work. The final lens to overlay into that is, of course, a ring-fenced legal entity lens, which we've been looking at for some while. And that's important to get right as well.

Ian Gordon, Investec

Good morning. First, on the FX provisions, you and RBS had fairly woolly wording. HSBC went for plain

English. Is it fair to say that their wording gives a better feel for quantum of impact still to come? And then, secondly, Equities, you've expressed quite a high degree of confidence that we'll see a pull back to normal levels in due course. When we had the June attack from the regulator, you told us to ignore the Dark Pool volumes because they weren't that significant to the greater scheme of things. The broader revenues haven't come back yet. My rather weak understanding of the US process is that your latest Motion to Dismiss means it's going to just sit there with nothing happening for a while, but it's still there. So I don't really understand the behavioural confidence that the recovery will be as strong as you anticipate.

Tushar Morzaria

Let's take them in the order you asked them. On FX, not much more I'm going to say, apart from the wording that we had. So just refer to it as certain regulatory agencies that we're having a dialogue with. It's pretty fluid, to be honest, and I'm sure different banks are at different stages of whatever dialogues they're also having. So it's a fluid, on-going dialogue. It's our best estimate at that point in time, in which we presented our results. There's not much more I can say. In Equities, it is a good point. So, on LX, the Dark Pool volumes themselves, or the commissions that we're receiving from them, in and of themselves, are not that significant. So if we took 80% of those commissions off the table in any one year, you may notice it, but it's really not going to be a big game changer. Where it was more significant was that everybody looked immediately at the LX commission pool that would immediately slow down. That didn't feel very significant, only because the total pool in itself isn't so big. Well, what we found is that clients slowed down trading in other parts of the Equities franchise. Now, that was a little bit hard to know during the summer. I guided that July on the call was our slowest month at that point in time. And then we went into an August, we experienced some sort of slowdown in August as well. Then September was better. So it's pretty hard, sitting there, to think, is this our clients being cautious with us, or are we experiencing some market slowdown? So it's very hard to be precise around this stuff. But I think, as we got into September, and we can see how other asset classes were performing, it became more obvious to us that we're probably losing market share in equities. But having said that, it has been improving in September, and continues to improve. I do think that it will take some time to get back to normal levels. And I guided to that. We'll be hopefully closer to normal levels as we go through the fourth quarter, but we're not at normal levels yet. So, you know, I'm optimistic, and I can see our volumes are picking up. I can see the clients are trading more with us, that were trading less with us in third quarter. So it's, there's a notable shift going on.

I think we're about out of time. So, thanks for coming in. Hope this is helpful. For those of you that want to share it, please do give us feedback and we'll try and improve on this and keep them running if it's helpful. So thanks for your time.

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