Barclays PLC Q3 2020 Results

Analyst and Investor Conference Call Speech

Jes Staley, Barclays Group Chief Executive Officer

Tushar Morzaria, Barclays Group Finance Director

Slide 2: Jes Staley, Barclays Group Chief Executive Officer

Good morning.

Slide 3: Diversification is a key strength of Barclays

As the COVID 19 pandemic grew, and the global economy began to contract, Barclays focused on three things.

First, to preserve the financial integrity of the bank. If we are to maximise our support for the economy and society in this time of challenge, Barclays must first be a strong, profitable business.

Second, we wanted to be there for our customers and clients. So we did things like waiving charges and interest payments to help people cope during a very difficult period. And we worked with Governments, particularly the UK Government, to deliver programmes to help businesses, big and small, to weather the storm.

And third, Barclays needs to embrace and support our colleagues within the bank, recognising the challenges that we all face, on a personal level, and on a professional level.

Slide 4: Resilient performance in Q320 reflecting the Group’s diversified business model

To the first point, Barclays generated a pre-tax profit in the third quarter of £1.1 billion, which means we’ve earned £2.4 billion of profit before tax in the first three quarters of this year.

In the face of extreme stress for the UK and US economies, for Barclays to maintain its profitability through the first nine months of the year, clearly supports the basis of our strategy, as a diversified, developed markets, universal bank.

With tangible equity of some £48 billion, we closed the quarter with a CET1 ratio of 14.6%, representing the highest level of capitalisation in the bank’s history.
Distribution of excess capital to shareholders remains a priority for this management team, and the Board will decide on full year dividend and capital returns policy in February. Our liquidity coverage ratio stands at 181% and we have impairment reserves today of some £9.6 billion.

Barclays is today highly capitalised, liquid, well reserved for impairments, diversified in its business, and profitable.

**Slide 5: All businesses returned to profitability in Q320, with the benefit of the wholesale and consumer mix evident**

In the third quarter, Barclays UK returned to profitability following its loss in Q2, to generate a modest £196 million of profit before tax.

**Slide 6: Consumer business activity recovered in Q320 from the April low point**

While revenue was still off some 16% versus the same quarter last year, it improved slightly versus the second quarter. With reduced impairment to £233 million, Barclays UK produced an ROTE of 4.5% for the quarter.

The profitability of Barclays UK will most likely be the principal challenge facing the profitability of Barclays as a Group in the near term. Close to zero interest rates; that we provide many core banking services for free; lower charges for overdrafts; and the elimination of certain banking fees, will all challenge our business.

The strategic conundrum for major banks in the UK today is not new market entrants, but maintaining profitability given the state of the industry in which we operate. That said, we are encouraged by the progress we are making in delivering a digital bank to UK consumers, and to small businesses across the country.

In our international consumer cards and payments business – or CCP as we refer to it - we returned to solid profitability in the 3rd quarter, with an RoTE of 14.7%. Following losses in the first and second quarters, the business generated a profit before tax of £165 million in the third quarter.

With signs of recovery in the UK economy beginning, revenues from our payments business were up over 30% versus the second quarter. And US card revenues were up 7%, also versus the second quarter.

The strength of our international consumer business, plus our overall payments franchise, is evident in its profitability. Importantly, our delinquencies remained broadly stable, and we booked an impairment of just £183 million in the third quarter.
Slide 7: Barclays has grown share in the Markets Business since 2017, with material outperformance versus peers in H120

The Corporate and the Investment Bank delivered £1 billion of profit before tax, in the third quarter. Over 85% of the bank’s profitability in the last three months came from the CIB. This performance was led by our Markets business, with revenues of just under £1.7 billion, up 38% in dollar terms, versus last year.

The CIB’s RoTE was 9.5% in the third quarter. We continue to focus on improving the profitability of the Corporate Bank, and of our coverage bankers, as I appreciate there is still more to do, but this profitability represents a good performance for the CIB.

Slide 8: Remained open for business during the COVID-19 pandemic helping support the economy

Our second priority was to help consumers and businesses deal with the pandemic.

We have dropped fees or waived interest, equivalent to some £100 million of revenue since the crisis began. This has directly relieved some of the financial pressures faced by our UK customers and clients. We have also granted over 640,000 payment holidays globally across mortgages, credit cards, and personal loans.

And Barclays created a Community Aid package of £100 million, to make grants to charities helping those most impacted by COVID-19. Tens of millions of pounds in support has already been distributed.

Alongside these efforts, Barclays has partnered with the UK Government to administer programmes providing direct financial support. From bounce back loans to small businesses, to underwriting commercial paper issued by major employers in the United Kingdom, we have helped extend £24.6 billion of financing since the pandemic began.

We have also been extremely active in supporting businesses and institutions to access the global capital markets, including helping raise over £1 trillion of new issuance across the second and third quarters.

On climate change, we have been working extremely hard since our AGM in May to develop detailed plans for implementing the resolution passed overwhelmingly by our shareholders at the meeting. We are looking to publish an update on progress with our climate strategy, together with defined targets, before the end of the year.

We understand that now is the time for Barclays to stand behind our customers and clients, as they manage their way through this virus. We also know, there are still many challenges to be faced.

Finally, we are indebted to the 88,000 Barclays employees, who have committed themselves to the performance of the bank, through the first nine months of an unprecedented year. We have endeavoured to support them in every way we can as a company. From giving leave for colleagues to tend to family members in distress, to cancelling all redundancy measures for the last six months.
From investing in refurbishing our physical spaces - to provide a safe environment from which to work, to providing the technology to allow 65,000 people to work from home. Our colleagues have given their all to ensure we can run this bank safely and soundly, and we in turn have backed them.

This is a trying time for all of us, and it will continue to be so. But my hope is that Barclays will live up to its 330-year heritage, and emerge from this pandemic with pride in what we have done, and how we have helped.

Slide 9: Tushar Morzaria, Barclays Group Finance Director

Thanks, Jes.

As usual I’ll make some brief comments on the first nine months, and then focus on the third quarter performance for the rest of the call.

Slide 10: Q320 YTD Group highlights

As Jes mentioned, the result for the first nine months continued to show the benefits of our diversified business model.

Despite the impairment charge of £4.3bn, three times the previous year, we reported a statutory profit before tax of £2.4bn, generating 7.6p of earnings per share.

Litigation and conduct was just £0.1bn in the nine months, but we had a large PPI charge in Q3 last year, so I’ll reference the numbers excluding litigation and conduct, as I go through the results.

Profits for the year to date were down on last year driven by the increase in the impairment charge, but income growth of 3%, against a 1% decrease in costs, delivered positive jaws of 4% and an improved cost: income ratio of 59%.

That income growth reflected a 24% increase in CIB, more than offsetting income headwinds in the consumer businesses.

Overall we reported an RoTE of 3.8% for the nine months.

Our capital position strengthened further to reach a CET1 ratio of 14.6% at the end of September, with RWAs down £8.3bn in Q3.

TNAV increased from 262 to 275p over the nine months.

Moving onto the Q3 performance.
Slide 11: Q320 Group highlights

Group income decreased 6% in Q3.

CIB again reported a year-on-year increase, driven by the performance in Markets, offset by the expected income headwinds in BUK and CCP.

While CIB income for Q3 was down on the levels of H1, the consumer businesses reported increases on Q2, as we had guided.

Costs increased slightly, delivering a cost: income ratio of 65%.

The impairment charge of £608m was well down on the Q1 and Q2 numbers, and we saw limited flow into delinquency in the quarter.

Net write-offs in the quarter were just £0.5bn, and £1.4bn for the nine months.

I’ll say more on impairment in a minute, but first a few words on income and costs.

Slide 12: Gradual QoQ income improvement in consumer businesses and YoY growth in CIB

The quarter again showed the benefits of diversification of our sources of income, with a decline on Q2, but some recovery in the consumer businesses.

However, conditions remain challenging for those businesses with reduced balances in a low-rate environment, as we’ll show on the next slide.

Slide 13: Consumer businesses income still facing headwinds from the low rate environment

We’ve highlighted here the headwinds from balance reductions in UK and US cards, which continued in Q3, although we saw some stabilisation during the quarter.

We saw signs of recovery in consumer spending in both the UK and US through the quarter, as lockdowns continued to ease.

However, uncertainty remains as to the conversion of that spending recovery into interest-earning balances, and on the effect of further government restrictions through the next few months.

Any spending recovery should have a quicker transmission to income levels in US cards, due to the higher interchange income we earn on card spend in the US.

We’ve put on the slide a reminder of the headwinds in BUK that we quantified at Q1. When I come back to BUK you’ll see that margin compression eased in the quarter following the repricing of deposits in Q3.

Looking now at costs.
Slide 14: FY20 costs expected to be broadly flat versus FY19, with the Group evaluation actions to structurally reduce the cost base

Although costs were up slightly at £3.4bn, we remain very focused on cost efficiencies, particularly in light of the low interest rate environment.

The COVID pandemic has resulted in additional costs for the Group in the short term, both direct costs and through the suspension of headcount reductions we had planned.

I would remind you that costs in Q4 will include the bank levy.

Overall, we would currently expect costs for the full year to be broadly flat on 2019.

However, the pandemic is also changing some of the ways in which we work, and this will open up additional cost opportunities going forward.

As a result, we are of course evaluating actions to reduce the structural cost base over time, which would result in additional charges, but the timing and size of these are still to be determined.

Slide 15: Q320 impairment charge reduced significantly from H120 quarterly run rate

I’ve mentioned that the impairment charge in Q3 was well below the Q1 and Q2 levels, with lower charges in each of the businesses.

The continued reduction in unsecured balances was a major factor feeding into the lower charge.

We updated the macroeconomics variables, or MEVs, used for our IFRS 9 modelling in the quarter. However, this generated little by way of additional book up in the charge.

Assuming no significant change in the MEVs we are using, nor in effectiveness of support schemes, and absent an increase in single name corporate defaults, a similar impairment charge in Q4 would be a sensible estimate.

We continue to see limited effects of the pandemic on arrears rates, partly as a result of support programmes.

We would expect an increase in delinquencies as we go through 2021, but given the significant book up in provision taken in H1 and the expectation of some economic recovery in 2021, we would expect a lower charge for 2021 than 2020.

In CIB, we had some single name charges but our conservative positioning, including credit protection measures, kept the charge below the Q1 and Q2 levels.

We’ve shown on the next slide a breakdown of how we built up the Q3 charge, and the MEVs underlying the expected loss calculation.
Slide 16: Q320 impairment was materially lower than the impairment build in Q120 and Q220

We’ve shown the charge for the last few quarters, split into the impact of updated COVID-19 scenarios and weightings, single name wholesale charges, and the balance of the charge excluding those impacts.

As I mentioned, we have updated the MEVs slightly this quarter, notably extending the period of elevated unemployment in the UK, but don’t have a significant book up this quarter.

Taking a step back from the level of the Q3 charge, it’s important to look at the coverage ratios to see the full extent of our cumulative protection against the downside risk.

Slide 17: Q320 impairment coverage ratios

On this slide we’ve summarised the main loan books, impairment builds, and those resulting coverage ratios.

Balances have gone down in Q3 for wholesale and unsecured, but we have broadly maintained coverage compared to 30 June.

You can see that our coverage ratio has increased at the group level from 1.8 to 2.5% over the nine months, and that’s flat on 30 June.

The wholesale coverage has almost doubled over the first nine months to 1.5%, and a large portion of this is in the selected sectors which we consider to be more vulnerable to the downturn, which I’ll cover shortly.

The other major area of focus continues to be the coverage on the unsecured consumer books, where the ratio has increased from 8.1 to 12.2% overall in the year-to-date, again that’s broadly flat on 30 June. Coverage is 23.8% on Stage 2 balances, over 90% of which are not past due.

We’ve split out the unsecured portfolios in more detail on the next slide.

Slide 18: Q320 impairment coverage ratios of credit cards, unsecured loans and other retail lending

I’ll just highlight the coverage on the UK cards portfolios at 16.4%, and 28.5% on Stage 2 balances.

As I said at Q2, we think we are well provided, despite the continuing uncertainty as to the speed and extent of economic recovery, particularly in the UK.

A quick word next on payment holidays.
Slide 19: Payment holidays granted have reduced materially and net balances are at low levels as customers have rolled off

We've set out on this slide the continuing roll off.

As you can see a very significant portion of the unsecured balances that were granted payment holidays have now rolled off, and many of these are returning to regular payment schedules as their payments become due. Holiday balances for UK and US cards were just £120m and £90m respectively at 30 September.

We have 3% of the mortgage book still on a payment holiday, but with an average LTV of just 63%.

Turning now to wholesale coverage on selected sectors.

Slide 20: Wholesale exposures are diversified and well covered, especially in selected vulnerable sectors

We've shown here the breakdown of our wholesale exposure by type, plus the exposure to those sectors which we feel are particularly vulnerable to the downturn.

The balance sheet exposure to the selected sectors is £18.6bn, down c.£2bn from 30 June, and our overall coverage ratio across these sectors has increased from 2.3 to 4.2% over the first nine months.

As I highlighted at Q2, we have synthetic protection in place covering c.25% of our exposure.

This protection has been effective in reducing our wholesale impairment charges: for example across the first nine months it reduced our impairment charge by over £300m.

As I've mentioned before, we have been happy to sacrifice some income in order to reduce the downside on credit risk in this way, which is one of the reasons our corporate lending income line remains lower than it would otherwise be.

Turning now to performance of the individual businesses.

Slide 21: Q320 Barclays UK

We mentioned in the first half some of the income headwinds BUK is facing, and these are still reflected in the Q3 performance, with income down 16% year-on-year, in line with consensus.

Although we saw some recovery in spending in the quarter, as I showed earlier, unsecured balances have not increased, with interest-earning card balances down 19% year-on-year.

Mortgage balances on the other hand were up year-on-year and up £1.2bn on Q2, and with an improvement in pricing.

There was also a further increase in BUK Business Banking lending, as Bounce Back Loans and CBILS reached c.£10bn in aggregate.
Overall loan balances grew by £2bn in the quarter to £204bn.

Deposit balances grew further in the quarter, resulting in a loan: deposit ratio of 91%.

NIM was up slightly at 251bps, and we expect a similar level in Q4, in line with our previous guidance range.

Costs increased 15% year-on-year, as COVID-related costs more than offset efficiency savings. That included c.£30m of quarterly costs in our partner finance business which was transferred from Barclays International earlier in the year.

Impairment for the quarter was £233m, up year-on-year, but well below the £583m in Q2.

As I noted earlier arrears rates at 30 September do not yet reflect the economic downturn.

Turning now to Barclays International.

**Slide 22: Q320 Barclays International**

The BI businesses delivered an RoTE of 10.5% for the quarter, up slightly year-on-year, with income, costs and impairment all broadly flat.

I’ll go into more detail on the businesses on the next two slides.

**Slide 23: Q320 Barclays International: Corporate & Investment Bank**

CIB delivered an RoTE of 9.5% in Q3, up slightly year-on-year as another strong performance in Markets more than offset the increased impairment provision.

Income was up 11%, at £2.9bn, on a flat cost base, delivering strong positive jaws.

Markets income increased 29% in sterling, resulting in the best ever Q3 on a comparable basis, and up 38% in dollars.

FICC increased 23%, with a particularly strong performance in credit, reflecting wider spreads.

Equities had its best ever quarter in sterling, increasing 40% driven by equity derivatives, with higher levels of client activity and volatility.

Banking fees decreased 11%. Strong performances in debt and equity capital markets were more than offset by lower fee income in advisory, which was impacted by a reduced fee pool and a strong Q319 comparator.

Corporate lending income wasn’t affected as significantly as in previous quarters by mark-to-market moves in loan hedges and leveraged loan marks. The reported income of £232m did include some net benefit from these items this quarter.
Costs were flat, resulting in a cost: income ratio of 59%.

Impairment increased year-on-year to £187m, but was below the Q1 and Q2 charges.

RWAs reduced by a further £5bn in the quarter to £193bn, lower again than anticipated. I'll come back to that when I talk about capital progression.

Turning now to Consumer, Cards & Payments.

**Slide 24: Q220 Barclays International: Consumer, Cards & Payments**

Income in CCP was down 23% year on year, driven principally by the significant reduction in US card balances, which were down 21% year-on-year in dollar terms.

In addition to affecting balances, lower consumer spend volumes were also a headwind for interchange in cards and for payments income.

As mentioned earlier, we have seen some recovery in spending in Q3, benefitting those income lines. The decline in card balances did stabilise towards the end of the quarter, but it is too early to guide on the quantum of potential balance growth over the coming quarters.

Costs were down 10%, resulting in a 58% cost: income ratio.

Impairment was £183m, well down on previous quarters, reflecting lower balances, with arrears rates slightly lower in the quarter.

Turning now to Head Office.

**Slide 25: Head Office**

The Head Office loss before tax was £191m, up year-on-year, but down significantly quarter-on-quarter.

The negative income of £127m reflects the main elements I’ve referenced before: legacy funding costs, residual negative treasury items, and negative income from hedge accounting, and those elements are expected to continue in Q4.

As in Q2, costs of £69m were a little above the usual run rate of around £50m due to the inclusion of a further portion of the Community Aid programme of £100m we announced at Q1.

Moving onto capital.

**Slide 26: Q320 CET1 ratio increased to 14.6%**

We began the quarter at a CET1 ratio of 14.2%, and the ratio increased strongly to 14.6%.
This reflected capital generation from profits and a further reduction in RWAs.

Profits net of impairment contributed 26bps to the ratio.

IFRS9 transitional relief didn’t move significantly this quarter, as the bulk of the impairment charge was not eligible for relief.

Both spot and average leverage ratios were above 5%.

I’ll say more about the way we are looking at our capital flightpath in a moment, but first I’ll go into more detail on the RWA bridge.

Slide 27: RWAs decreased over Q320

Here we’ve analysed the £8.3bn decrease in RWAs.

As in Q2, anticipated pro-cyclical impacts in the quarter were limited, with a £3.3bn increase in credit risk RWAs from asset quality deterioration.

This increase was more than offset by £7.4bn of decreases in credit risk RWAs. This reduction reflected a £3.9bn decrease due to book size, including further net repayments of revolving credit facilities and lower retail lending, net of government schemes; and also £3.5bn of regulatory tailwinds, including the SME support factor.

Counterparty and Market RWA movements were less material and FX decreased RWAs in sterling terms, but also reduced the CET1 numerator.

Our plans for running the businesses assume some pro-cyclical effects on RWAs still materialise at some point, although this may come in 2021 rather than Q4.

The other headwind I would highlight is the effect on the capital numerator of impairment on defaulting balances, as the charges are not eligible for the transitional relief introduced in Q2.

Looking on the next slide at our capital requirement.

Slide 28: Continue to manage CET1 ratio with appropriate headroom above MDA through the stress

We’ve shown here a reminder of our current capital requirement, and how it has reduced to reflect the removal of the counter-cyclical buffer in Q1, and the reduction in Pillar 2A in Q2.

As a result, our MDA has reduced to 11.3% since the start of the year, so our Q3 ratio of 14.6% represents a very comfortable buffer over the MDA level, despite the future uncertainties.

With regards to headroom, our capital ratio has been strengthened over recent years to put us in a position to absorb precisely the type of stress we are now experiencing.
In this uncertain environment, we will manage our capital ratio through this stress to enable us to support customers, while maintaining an appropriate buffer above the MDA.

As I emphasised at Q2, the buffer that we consider to be appropriate will evolve over time, having regard to the expected flightpaths of both our ratio and our capital requirement.

We believe we are generating surplus capital and both we, and our peers, will be discussing this with the regulator in the course of Q4, as the PRA has indicated.

In summary, we are carrying significant capital above our regulatory thresholds, and would be comfortable for our CET1 ratio to reduce over the coming quarters, but it’s too early to give definitive guidance on the flightpath.

Finally, a slide about our liquidity and funding.

**Slide 29: High quality and conservatively positioned liquidity and funding position**

You can see here some of the key metrics, showing we are well positioned to withstand the stresses that are developing, and to support our customers.

**Slide 30: Outlook: Diversification delivering resilient performance**

So, to re-cap.

We were profitable again in Q3, generating a 5.5% RoTE, despite the continuing effects of the COVID pandemic.

Although some income headwinds across the consumer businesses are expected to continue into 2021, we are seeing gradual improvement from the Q2 levels.

We continue to see the benefits of our diversified business model coming through, with income growth in the CIB again in Q3, and our franchise is well positioned for the future.

Costs efficiency is a key focus going forward, given the low interest rate environment we are facing.

The pandemic has increased costs in certain areas, but is also changing some of the ways we work, and we expect this to result in opportunities for further efficiencies in the future.

We have taken very significant impairment charges in Q1 and Q2, but a much lower charge in Q3.

Our funding and liquidity remain strong and put us in a good position to support our customers and clients during this difficult period.

Although we may face further headwinds in Q4 and into 2021, our strong CET1 ratio of 14.6% puts us in a good position.
While I won’t comment further on timing of future capital distributions at this stage, the Board certainly recognises the importance of capital returns to shareholders, and will decide on dividends and capital returns policy at the year end, so we’ll update you then.

Thank you, and we will now take your questions, and as usual I would ask that you limit yourself to two per person so we get a chance to get round to everyone.
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• regulatory capital, leverage, liquidity and resolution is based on Barclays’ interpretation of applicable rules and regulations as currently in force and implemented in the UK, including, but not limited to, CRD IV (as amended by CRD V applicable as at the reporting date) and CRK (as amended by CRK II applicable as at the reporting date) texts and any applicable delegated acts, implementing acts or technical standards. All such regulatory requirements are subject to change;
• MREL is based on Barclays’ understanding of the Bank of England’s policy statement on “The Bank of England’s approach to setting a minimum requirement for own funds and eligible liabilities (MREL)” published in June 2018, updating the Bank of England’s November 2016 policy statement, the HM Treasury response to the consultation on the transposition of BBRRD II published on 15 October 2020 and the non-binding indicative MREL requirements communicated to Barclays by the Bank of England. Binding future MREL requirements remain subject to change including at the conclusion of the transitional period, as determined by the Bank of England, taking into account a number of factors as described in the policy statement and as a result of the finalisation of international and European MREL/TLAC requirements as these are implemented in the UK;
• future regulatory capital, liquidity, funding and/or MREL including forward-looking illustrations, are provided for illustrative purposes only and are not forecasts of Barclays’ results of operations or capital position or otherwise. Illustrations regarding the capital flight path, end-state capital evolution and expectations and MREL build are based on certain assumptions applicable at the date of publication only which cannot be assured and are subject to change. The Bank of England will review the MREL calibration by the end of 2020, including setting Pillar 2A capital requirements, which may drive a different 1 January 2022 MREL requirement than currently proposed. The Pillar 2A requirement is subject to at least annual review.

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Barclays management believes that the non-IFRS performance measures included in this document provide valuable information to the readers of the financial statements as they enable the reader to identify a more consistent basis for comparing the businesses’ performance between financial periods and provide more detail concerning the elements of performance which the managers of these businesses are most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by Barclays management. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well.