04 August 2015

Barclays PLC 2015 Interim Results

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

Tushar Morzaria, Barclays Group Finance Director

Let's start with the same list that you've probably heard me talk about every time we've got together- the five things on my mind.

First and foremost, are we making a double-digit return in our Core bank? We have been doing that successfully. The second quarter was, again, a good proof point there. It's non-trivial to be doing that for us because we're increasing the equity allocation into the Core bank quite materially, so if you compare the second quarter this year to the second quarter last year, average equity increased from £41 billion to £47 billion. That's about a 15% increase in equity. So to keep on generating double-digit returns, obviously, our profit after tax needs to improve by at least that amount as well. And you've seen us being able to do that consistently.

There'll always be some funnies in our results. In the second quarter we had the US Wealth business, and you saw the effects of that - we called it out in our Personal and Corporate Banking segment. And Head Office is a little bit hard to model. I'd urge you to keep an eye on that. We've had positive income in Head Office for some time now. It's not a forecast on the third quarter or anything like that, but I would expect it to oscillate around zero, with no persistent bias. But we have had a run of positives, so just make sure you don't forget about that. So that's double-digit returns on the Core. Good progress there.

The second thing is our Non-Core unit needs to shrink, any which way you measure it. We're making reasonable progress there. You've seen our Non-Core units shrink risk-weighted assets from £65 billion to £57 billion in the second quarter. And leverage, actually, has come down quite materially from £236 billion to £166 billion in the quarter. And that's a bit below our 2016 guidance, so we made very good progress on leverage.

Income, as you know, has levelled out. It's plus or minus zero now, so it's a cost take-out challenge for

us as well as capital release. We've made decent progress on capital release and we've got to continue to make progress on cost take-out. About 40% of those costs are tied up in our European retail businesses, so we expect that to exit the building as and when we dispose and deconsolidate those businesses over time. And the rest is more, I'd say, principally around legacy investment banking businesses, where we'll continue to drive out efficiencies.

Another funny, just to remind you about, we had the UAE gain in the third quarter last year. It's about a £119m, from memory, one-time gain. So we won't be able to repeat anything like that in the third quarter, just bear in mind. So Non-Core shrinkage is our second objective - decent progress there.

Thirdly, capital needs to go up for us. We made good progress again in the first half and in the second quarter we hit our 11% and 4% milestones for CET1 and leverage respectively. A little bit over them actually. We'll continue to drift up in terms of capital, but we won't give specific guidance in the way we have done historically. I think the way we're thinking about it as a management team is somewhere around 150 basis points of buffer above our end-state, fully phased in minimum requirements. And that will be our next milestone that we'll look to achieve over the medium term.

That is sort of a variable amount, of course. The minimum end-state requirement is 10.6% at the moment. The G-SIFI surcharge may or may not be variable; countercyclical buffers; various other things could make that a variable number. But at this stage somewhere around 150 basis points feels about the right number for us to target.

Over the rest of this year, we are going to have some RWA inflation, nothing that I would characterise in the Basel IV type territory. So it wouldn't be on the accelerated implementation review of trading book, or standardised credit risk-weighted. These are more regular, model changes that we had in the pipeline that will happen in the third and the fourth quarter. There's operational risk RWAs as well that is still out there. It won't happen in the third quarter but it will happen, and it may well happen in the fourth quarter. I wouldn't be surprised if we're ready to go then. But again I'll probably update you guys in the third quarter as to what to expect in the fourth quarter as best I can. But I think we'll be at or around 11% for the next two quarters, as we absorb some of these model changes.

The other thing I'd say on capital as well is not to forget conduct charges. We're trying to put the past behind us and there're a few things to resolve there and that, obviously, has a capital effect.

Book value is fourth on my list of things to get right. We did go backwards in book value in the second quarter. We went backwards by 9 pence. Really, it was the dual combination of two dividends going through in the second quarter. We cash account dividends, you don't accrual account them under IFRS. So we had the final dividend of 2014 of 3.5 pence, which was paid on April 2, so it just slips, as an

accounting matter, into the second quarter. And we had the first quarter interim dividend, which also got paid in the second quarter. So the dividend was 4.5 pence. And then there were reserve movements. As interest rates backed up, and movements in currencies meant our reserves went backwards a slight amount, which impacts book value, though it doesn't impact capital.

The fifth thing is costs. Again, pleased to see a sequential decrease in our cost numbers. And really the line I'm most focused on is operational expenses, before conduct and litigation, Costs to Achieve, and bank levy. We're still targeting £16.3 billion for this year [excluding Costs to Achieve]. It is going to be hard yards for us; currencies haven't been favourable for us and, obviously, the levy is up by a material amount - 40% on a full-year basis - but we still think we can get there.

Really, currencies are the only wildcard there for us. If currencies move against us later in the year, it may be a miss for us. It'll be a nice problem to have, frankly, as we'll make more profit. So it's not something that worries me too much but, given that we've got a hard cost target, if currencies move later in the year it's very difficult for us to absorb that and take cost actions that generate any saves that late on in the year. The £14.5 billion for next year is still very much our Core cost target and we feel confident we'll get there. Again, we'll see how currencies evolve. Bank levy has got more clarity but we'll see how currencies evolve between now and then. But at this stage, still confident we'll get there.

Just to recap. Double-digits in the Core; it's going to get harder and harder. We're making good progress but equity allocation increases in the Core. Making good progress in the Non-Core shrinkage, you've seen the numbers on that, we're making good progress. Capital accretion; we've hit our milestones. Really, the next milestone for us is 12% CET1. That'll be a bit further out, though, well into the medium term. We'll try and hold book value and grow it over time. And continue to strip out costs on an absolute basis to meet our cost objectives.

I think that's all I'll say in terms of introductory remarks. Why don't we just go into Q&A and take it from there.

James Chappell, Berenberg

Could you just give us a little bit of clarity, since the recent changes with John stepping up to be Executive Chairman, about what the strategy is for the IB? I'm, to be honest, a little bit confused. Is it that you've got the right cost base in there and that you need to sort the revenues out? Or do you still have more changes to do in terms of the positioning and the shape of the business? If you can give a little more colour of what's changed in the last four to six weeks, that would be very kind.

Tushar Morzaria

Yes, absolutely. The IB has made good progress. It remains a work in progress, though. We had a

decent first half and we had a double-digit return on first-half reported numbers. Of course, that excludes the bank levy and things like that, so I wouldn't extrapolate that into just assuming the same level of performance for the rest of the year. What's very pleasing about the IB is that it's becoming better at utilising the amount of capital that it's been allocated, and not utilising capital where it's not profitable or, on a returns basis, able to do so. And you saw that in the second quarter; risk-weighted asset utilisation and, for that matter, leverage. We don't disclose leverage, but you'll have seen it there as well.

I think there's more to do on that. And John, as he's reviewing the business, and he has been in quite some detail, is looking for opportunities with Tom King, who runs the IB, of where we could move even quicker on that basis.

I don't think we'll be making any dramatic announcements about any new size and shape in the IB, in the near term at least, so it's more of a refinement and continuous improvement. And the IB management team themselves are very committed to, over time, increasing the reported returns on equity, and of course revenues, cost and capital too, to make that equation work out. You've seen that in the second quarter, particularly, which is where you saw costs come down quite significantly. And capital utilisation came down quite significantly as well. That won't happen every quarter, it actually wouldn't surprise me if capital is more of a zigzag line rather than a step-line downwards. But that's what you'll see more and more of over time.

Fiona Swaffield, RBC

Could we spend a bit of time on Barclaycard? I know I asked on the call, but I'm still struggling a bit with what's going on, underlying, in the US. I don't know if you can help us on how much currency is impacting the P&L and cost versus revenues going forward as well? Thanks.

Tushar Morzaria

Sorry, I think I may have been remiss and didn't answer your question on the call, I answered a different question. There is a currency effect there for both the income and the cost line. I didn't bring the numbers with me, but the increase in income would still be a material increase in income even if currency adjusted it back. So it's more organically driven rather than a currency effect that you're seeing come through.

It's really a consequence of portfolio acquisitions that we did last year, the back end of last year that you're seeing the full effect for. So when you compare the first half or, indeed, the second quarter to Barclaycard last year, those acquisitions happened later on in the year so you're seeing a step up in the first half. It'll sort of normalise, if you like, as we go through the year.

And that's really the strategy in the US. There is some organic build out, but it's much more an affinity card business and you're bidding for blocks of business. And we've been quite good at winning a reasonable share. We win some, we lose some. There were a couple of blocks that came up that pricing didn't work for us, so we passed on them earlier this year. So we're keeping the discipline, but where we can, it's usually very accretive.

And the costs as well, as we've seen, go together. But the thing that has been pleasing for Card is that we're able to continue to grow that business but keep returns at quite reasonable levels, of course. When you do take a block of business on, usually it's dilutive to returns in the first year and accretive in the second year, so it's getting that balancing act. We keep our returns comfortably in the mid-to-high teens but continue to grow the bottom line as well. And it's worked out quite well. They've done a very nice job, Amer and team.

Chira Barua, Bernstein

Two quick questions, one on the Investment Bank, which had a very good first half. It would be great if you could give some flavour for the products, also the geographical bias between Europe and the US. You've always done well in the US, so are we seeing a big turnaround in the European franchise post the restructuring? And the second one on Africa; the Chairman made a good point about the 74% that he can go up to. Are you thinking about getting there, and if you could highlight what stops you from consolidating the entire sub? What are the technicals behind it?

Tushar Morzaria

In the Investment Bank, the US is definitely the strongest part. It's stronger across the board, I would say. So it's a more balanced business across equities, debt, and sales and trading, and M&A as well. The European business is more of a Barclays Capital heritage, if you like; strong on the sales and trading side, reasonable in the UK investment banking, fee-earning business, less so in Europe. So it's not quite as well balanced as the US.

In terms of performance this time around, I guess the one thing, when I compare ourselves to peers, Macro is probably one where we looked a little bit different. I'd suspect it's probably not that different, it's just that we've done a lot of restructuring in Macro, so our comparatives differ. We've taken out more than half the capital of Macro and roughly a similar number of people - so third quarter last year, fourth quarter last year, even perhaps the first quarter of this year. You know, as you're going through that significant size restructuring, it's not like when you come into work on May 9 and it has all been done and everybody knows what they're doing. People are being spoken to about what their new job is, clients need to be reached out to.

So the comparatives, probably, show that we outperformed in Macro. It may well be that our

comparatives are a bit more favourable to us in that regard than, perhaps, some of our competitors who may not have been doing extensive restructuring. But nonetheless, Macro itself was a great performance. I mean, the returns in that business are very good and it's nice to see the effects of that restructuring. That it is a profitable, nice returning business when markets are good for that. When there's enough volatility and there's enough volumes going through.

On the other businesses, probably, equities, we look like we're probably a little bit behind other folks. Again, a little bit hard to do a direct comparison. We have this dark pool issue that literally this time a year ago came out of nowhere. Now, we haven't settled that case, and you know our views on how annoyed we were with that, but there's probably some lingering effect on it that we can't really quantify any more. It's too much of the passage of time and people have seen the stance we've taken, but there's probably some effect there. It's quantifiable in our dark pool business, tiny and insignificant, but it's more the broader peripheral businesses.

On the debt side and M&A side, business held up well. There's some sort of calendar effects that go in there and our M&A business actually did quite okay in the second quarter. The debt business also did okay, you saw that in our credit trading numbers. But it depends on when your deals print. We had some big prints in the first quarter that didn't happen in the second, so there is a seasonal effect there.

What was more pleasing, though, was less of a focus on revenues and more of a focus on the returns. So the step down in cost was reassuring and encouraging, and also the consumption of less capital was helpful as well. And it was probably those two areas that, I felt, we did better than perhaps some of our peers. The productivity level increased for us, and maybe it was starting from a lower base but that was the most pleasing for us.

Your point on Africa, yes, the 74% restriction is a legal restriction. There's no external investor can own more than [74%] of a locally listed bank. So we would need regulatory approval were we wanting to do that. It would be expensive for us to do it at the moment, because it's trading at c1.6 or 1.7 times [tangible book value], and we're trading barely at tangible book. So I don't think we'd be doing that any time soon. I think it was more he was asked the question 'you've got it, will you increase it, hold it or sell it'. And, I think his bias is to increase it, but there's no near term likelihood of that happening.

Manus Costello, Autonomous

I've got two questions on cost, please; one near term and one longer term. In the near term, getting rid of the Wealth business, you talk about the headwinds to your cost targets, but getting rid of the Wealth business in the US, presumably, is a tailwind. So should we expect that the Core business next year can do better than the £14.5 billion that you've been talking about?

And secondly, longer term - in the press, and it may be unfair to hold you to comments that John was making in the press, but he was talking about cost to income ratio for the Group in the 40s, whereas, obviously, you've set the target now in the mid-50s. So I wondered if you could give us some sort of idea of, longer term, is that mid-50s a staging post or should we see it going better?

Tushar Morzaria

Yes, the Wealth business, it's a good question. We don't expect to close the sale of the Wealth business until the very back end of this year, so there'll be no effect, if you like, in 2015. It will, unfortunately, affect our top line in 2015, as people start repositioning their business into the acquirer. You'll see some [income] drop off, because the way that business works. It's quite an interesting business, it's very different to how UK wealth businesses work. You have a lot of these IFAs or IRs, which are sort of subcontracted in a way, not all of them want to work for the new owner of the business, so as those leave, you lose that revenue stream and that obviously goes into the purchase price. So it's neutral to the buyer, but we have some leakage and you'll see that come through in our top line and we'll call that out as it comes through.

Into next year, we should have, hopefully, a full year of deconsolidation, so we should see the cost benefit there. Rather than revising down our cost target, which would be the logical thing to do, because of the changes in the bank levy and the currency mix, which are significant headwinds from when we set the cost target - I mean, originally, that would be well north of £15 billion if we were to go back and revise it upwards, just for the currency and bank levy effect - we're just going to leave it at £14.5 billion and it's still some way away. A bwhole bunch of things could happen between now and then. Currencies could come back favourable again, say, and we'll guide to more a level of precision as we get nearer, but £14.5 billion is where we'll still target.

Manus Costello

What is the exact level of the cost base in 2016 which is associated with the Wealth business?

Tushar Morzaria

Yes, we haven't called it out. I probably shouldn't do it. I'll maybe do it the third or fourth quarter, to let you know. It's not very returns-generating, so it won't impact our ROE in any material way.

Cost-income ratio; John, as you know, ran ANZ and cost-income ratio at ANZ was in the low 40s, so he's obviously had experience - I think when he inherited… I don't know what it was, but it was significantly higher, if not 20 points higher than that - in driving down cost-efficiency. Some of that was revenue growth, and I think one of the things that you'll probably hear John talk more and more about is that we shouldn't forget the income side of that ratio.

John doesn't talk about any heroic assumption around that, just that we should grow in line with the market. A proxy for that is that if you look at our Core bank in the first six months, income grew 2%, so kind of what you'd expect, nothing that fancy, most of that really driven by credit cards really and not much growth elsewhere. 2% on, you know, £13 billion is pretty decent money for a cost-income ratio, and if you annualise that, you could get up to, I don't know, £500 million or something like that. Now, if you want to move the cost-income ratio in the Core bank; say it's 60% and let's say you want to take 10% off, or even 5% off, let's say you want to get to 55% - that's about a billion and a quarter or so of jaws.

Well, if you're going to get £500 million from revenue, it starts dramatically changing the balance of that equation, and that's really what he's looking for: that we shouldn't just ignore income. You don't need a huge improvement in income to have a material effect on your jaws. And I think he's thinks we haven't been customer-focused enough, that we've been too internally-focused and, nothing heroic about revenues, but we need to grow at least with the market and in some cases better than that. And that will make a material difference to our cost-income ratio while, at the same time, not moving away from any of our existing cost targets. And he'll want to drive them down over time. I've no doubt in my mind that's where he'll take us.

James Invine, Societe Generale

Can I have a couple more on Barclaycard, please. You were talking a few minutes ago about the costs and the revenues in the US business, but if you look at the balances, they're basically flat [in H1]. I know you've got a bit of currency in there, but from a business that was growing, and really quite quickly last year, it's slowed down all of a sudden. Is this basically the underlying level of organic growth, and the only thing that gives you growth above a few percent is the acquisitions? And then the second thing was you disclosed the value of payments processed, which I think is new, but, that's up 16% while your card balances are flat - your business customers are actually down a bit - so how do you reconcile the payments processed going up so much?

Tushar Morzaria

Yes, income being up quite significantly year-on-year, balances - you're looking at probably more at sequential quarters. It's the J-curve effect that I was talking about earlier; so it takes time. You acquire the balances but the income on those balances has a delayed effect. But your point around growth is a fair one. In terms of organic growth, our biggest business is in the UK and that will be very linked to the UK market. We'll grow a bit quicker than that, but you won't expect us to grow twice, three times quicker than that. So it will be really geared towards the UK, and I'll come back to you on payments processed, it's also very geared towards the UK, and you can see what's going on there.

In the US, there is an organic business there; we have an open market product, Barclaycard Arrivals, but

it's quite small and [compared to the] very large growth rates [in the US], you won't see that number move significantly as it's quite a small business. So it will be blocks of business that we acquire through our affinity business, and they won't be blockbuster blocks - you won't see them bounce up in £5 billion chunks or anything like that, but you should see, hopefully, us winning more business than losing more business, and that J-curve continues to throw off decent returns and profit growth.

James Invine

But once you've bought that block of business, the block can't grow. Is that, effectively, what you're saying?

Tushar Morzaria

It can do. It will grow from its size, so we can still sign up more customers. So, for example, if we sign up an airline, it doesn't mean every single customer using the airline has their card, and that's one of the reasons why we've been quite good at winning these businesses where we're quite a good partner for that company to acquire more customers. And that's been a good track record for us.

On the payments processed, so it just gives you a sense of our transactor business, rather than our balances business. Obviously we make money through transactor fees, interchange and things like that, as well as revolving credit. Most of our money's revolving credit, but we do make money through our merchant acquiring business and our interchange fees as a consequence of that business.

And that's very geared towards the UK consumer behaviour, and Barclaycard actually produces public research which you guys may already get – if not, you're welcome to receive it – that talks about the consumer spending behaviour that we're seeing in the UK. And we're seeing pretty robust increases in spending growth in the UK, at least on our Card business. And because we have a decent market share, it's probably not a bad beta for the rest of the economy; above-inflation spending going on through cards. And what's quite fascinating about it is you can see how many people are spending on holidays and restaurants and theatres, and it's quite a good look into the future of UK consumer, and politicians love it as well. It gives you a sense of what's going on. The customer data, all that you're seeing in the business customer number decline, is there was a lot of dormant customer accounts and we just closed them off as part of our efficiency drive. So it's a slight - 10,000 or so from memory - decline, but that's all it was: dormant account closing.

Chintan Joshi, Nomura

Can I continue on Cards? So if the UK is growing with the industry, in balances that's 7%, 8% growth, US is about 3%, 4% growth, that's 85% of your loan book there. That should mean 5%, 6% growth rate on underlying balances, which we haven't seen in the first half - any reason for that? And then, if that is the natural growth rate for the industry trends, then given that you are looking to grow

inorganically from time to time, that should boost it to almost high single digits, if not quite 10%? Is that the wrong way of thinking about the Card business for the next few years?

Tushar Morzaria

The way I think about the Card business is, if you're investing in that business, you should be investing in a business with say: mid-to high-teen returns; growth - somewhere around 5% plus, some years will be lower, some years will be higher, it depends on any one particular years, but somewhere around 5% profit growth; a cost-income ratio in the low 40s - it has been lower than that in the past, but probably low 40s gives you enough capacity to reinvest; balance growth - there's a little bit of a currency effect going on there, because the balance number is quite a large number and we've called out how big our US balances are, that can skew things around a little bit, so you don't need much of a currency effect to start skewing the comparative, but generally balance will grow in line with profit growth, over time. It's a J-curve business, so you will see an asynchronous amount, but if it's constantly being fuelled for growth on a trend basis, you should see it grow with profits.

Chintan Joshi

5% would imply that you're actually not keeping up with market share, whereas Cards has been a challenger, particularly outside of the UK, and has been taking market share, so I'm just trying to reconcile that.

Tushar Morzaria

As I say, out of the currency effect on balances alone; we're the large card issuer in Germany as well, for example, so you've got euro, you've got dollars, you do have the currency effect there. We haven't called it out in constant-currency terms, it'd be a bit tedious to call it out in constant-currency terms every quarter, but by and large, that's what you should look for. On a trend basis, currencies will go up and down like a yo-yo in any quarter, but on a trend basis it should grow in line with profits.

Chintan Joshi

Okay, and then in Non-Core, the £20 billion that will be left in 2017, can you describe what that will be and what kind of costs do you need to run that kind of business, i.e. what kind of expenses? Is it just the IB desk that needs to process the derivatives? Is that what it is?

Tushar Morzaria

I'm not going to give you much detail on that, so that the people that we're transacting with don't know what we're planning to leave and what we're not planning to leave. But derivatives would be a component of that, for sure. You know, we're confident that the cost base associated with that would be minimal. I'm not going to give you precise guidance, but the EPS drag that rebounds, if you like, back into the Core, we're going to make sure that that's minimal. So the whole point of this strategy is

the Core bank starts to look like the future of Barclays. Every quarter we go through, it's more and more like the future of Barclays over time.

Chintan Joshi
Thanks.

Chris Manners
Tushar, I had a question for you on capital, and the way you build your stack. I saw that you're basically saying you build up the visible pieces that we can all see, then add 150 basis points management buffer, gets you to roughly 12%. How should we think about that management buffer and how the pieces move?

So, for example, if Pillar 2A at the moment's got a risk management and governance scaler in it, I don't know if it does for Barclays, but if it does then you have the Consultation which then pushes it into the PRA buffer, so your Pillar 2A could come down; would then your 12% come down, or would you then increase your management buffer to account for what's in the PRA buffer? Also, if you get another piece that's visible to us [externally], say counter-cyclical comes in, would you then compress your management buffer to absorb that, so that the 12% stays static, or do you then just say, 'okay, things have changed, we're now at 13%'? Just trying to work out how much that management buffer can absorb changes to what the regulator puts in.

Tushar Morzaria
It's a very good question, and it's tough to be precise because we'll have to see the facts and circumstance in play at that time. I would say, though, there's probably a bias upwards rather than downwards, so do I realistically expect that our end-state, if we were fast-forwarding, fully phased in, that we would be comfortable running capital below 12%? It's quite hard to see that at the moment, even if, say, G-SIFI reduced or the Pillar2A reduced or something like that. One of the reasons for that is obviously PRA stress testing is becoming an increasing part of the prudential tool kit, and how that features, in terms of assessing the right level of capital for banks is an evolving piece.

One of the things we're looking quite closely, and Steve will be very focused on this as well, is when we run a stress test, we trigger AT1 triggers, so CoCo triggers, and they're set at 7%. During the stresses, we do go through our buffers, our stress buffers, and we feel okay doing that. We didn't trigger in the last stress but that might also be important to us in setting our overall starting point in capital. So it is an evolving picture. I'd say, rather than say hypothetically, if counter-cyclical buffers are in, what would we do, or if Pillar 2A reduced, what we'd do, I'd probably say 12% rationalised, at the moment, at 150 basis point buffer, probably with a bias to the upside is how we're thinking about it. But it is an evolving picture and something we'll keep under review as we go through. Is there anything more you want to

add, Steve?

Steve Penketh, Barclays Head of Capital Markets Execution

I think all I would say is, if you are talking about buffers, as Tushar said, we're really talking about buffers to MDA restrictions as well as just a nominal number on a peer-comparative basis. So if your Pillar 1 requirement moves, which includes the Pillar 2A, rather confusingly, then obviously if you're going to be 150 basis points above the MDA restriction, then that shifts upwards. If your overall Pillar 1 requirement moves comes down, theoretically, it could come down. It's about us making sure that you're maintaining an adequate no-fly zone above MDA restrictions, and then also marking yourself to market and looking at your risk appetite as you grow, as well. Does that answer the question?

Chris Manners

Yes. I guess another way to think about is there are presumably invisible pieces to us, that the PRA makes you hold that you're now, I presume, including in that management buffer, that 150 basis points. Is the management buffer above and beyond what the PRA has asked for, 150bps, or how much does it include of that? Where's your comfort zone around that?

Tushar Morzaria

It's a fair question, but it's not quite as secretive as that, there's no special deal that we have with the PRA. I know it can sometimes feel like that, but there honestly isn't anything like that. The 150 basis points is genuinely what we feel is enough capacity that we don't trigger MDAs as well as perform well in stress tests, but it may evolve.

So as a good example, you could then say, well, why not 100 basis points, why not 200 basis points, why 150 basis points? In any 90-day window, there are a lot of reserve movements that go through the capital line, which we don't spend a lot of time talking about because they're generally quite random in nature and generally offset. So AFS reserves, PVAs, expected loss over impairment, pension deficits – I mean, these things fly around and they generally offset, but occasionally they could all go in one direction and we have seen that. I remember in the first quarter I was here, the fourth quarter of 2013, they all went in one direction. I was horrified, saying 'where's all our capital gone'. So you need to hold a buffer to make sure that the odd time when that happens, you have enough to cushion it, as well as stress testing and peer-group comparison and everything. But at the moment, rationalised at 150 basis points for 12% or so feels about right. We'll constantly keep it under review. My sense is there's probably a slight bias to the upside, but I wouldn't get more precise than that.

Chris Manners

Thank you.

Richard Thomas, Bank of America Merrill Lynch

So, in this room, last time we met, you were talking about AT1 issuance and you said you weren't in a rush. So, here we are in August which is not generally considered a blooming month for AT1 and you're issuing, so do you want to talk to us about what's going on?

Tushar Morzaria

Well, why don't I hand to Steve who's essentially handled the issuance for us.

Steve Penketh

Yes, it's absolutely right, this is not a rush. I think that if you look back over the course of the last four, five months, it's been a pretty sketchy macro environment, with Greece and with other things as well, so looking at where our overall issuance plan was going to be at the beginning of the year, we said between £10 billion to £15 billion all in. Obviously that adjusts all the time, because I don't think we've ever actually made a statement about how much we expect to do in any given year and actually been even remotely close to it when you look back again at the end of the year. It's been a pretty volatile market generally, but I think that where we've been, over the course of the last four or five months, we were looking at August, fundamentally closed for business really. If you're looking at sterling and euro – dollars probably a little bit more open at that particular period – and then you're moving into September and there's an expectation, potentially, of competing supply in September, as the other European banks come back.

So looking at what we had to do, looking at the fact that there was a lot of demand and a lot of investor dialogue in meetings I've had, and I'm sure it's the same with Tushar, asking about, well, when are you going to do this AT1 issuance? We only have, as we said, £4 billion to get to a 2% RWA target over a four-year period – so that's a billion a year, roughly on a linear basis – it just seemed that it was better to go now, seeing as we actually had the appetite and the reverse enquiry from investors to get in ahead of the vacation in August and ahead of the rush in September. But it's certainly does not, in any way, change the overall observation that we made that we are not in a rush for any of this. It just seemed like a reasonable space just before people went away, and I think that's proved to be the case, hopefully.

Tushar Morzaria

Yes, and if you've seen our leverage ratio, go back two years, it was obviously much more important that we got some AT1 done. Our leverage ratio's in a totally different place now, so Steve's right, we'll just drift up to the 2% requirement and be opportunistic about it. If we see good market conditions and can get stuff done we will, otherwise we'll wait.

Shailesh Raikundlia, BESI

A couple of questions if I may, please. The first one was on capital preservation in the Non-Core; you

said you've released about £2.7 billion in the first half, you've got about £8.3 billion remaining of equity, I was just wondering how we should think about that, whether there's going to be a significant amount remaining at the end of 2017, or are you going to lose most of that, which looks unlikely now? And the second question was slightly more technical, just on the attributable profit. Obviously with the tax rate going higher due to the surcharge, I was just wondering about the equity interest. They've remained broadly stable over at least last year or so. I was just wondering whether you get some release in terms of preference shares and swap them with AT1s or what do you do with that? Whether that attributed profit increases over a period of time.

Tushar Morzaria

On Non-Core capital preservation, it's a really good question because the two things we want to get right is release as much of that capital back into the Core and we've done quite a reasonable amount - half of the capital has been released back into Core and we need to grow the Core business against it. But also make sure that the remaining losses that it throws off are also negligible to EPS in the Core. How much capital will swing over? We've only given you a risk-weighted assets framework, so could be the capital that [the RWA number] would equate to. It's probably not a bad yardstick, you know, £2 billion to £3 billion of capital or so. It does depend on other technical computations like; deductions, precise risk-weighting for the assets left, whether there's any prudential valuation adjustments remaining, all of those kind of things. So we're not going to forecast that. But a good way of thinking about it is, we started off with £110 billion of risk-weighted assets, we'll get down to £20 billion. Dimensionally that's how much capital we reduce without being exactly precise as to the pounds left.

On attributable profit, we'll maybe do some AT1 issuance in August. We're in the market at the moment, so that'll flow through the equity interest line. There are some preference share coupons going through there. We'll be opportunistic about the opportunity to refinance that or any other form of our liability structure. If market conditions are right it's something we're axed to do, to behave economically wherever we can, paying due regard to our capital stack, TLAC requirements and everything. So I'm not going to forecast any liability management exchanges or anything like that but it's something we always keep an open mind on.

Shailesh Raikundlia

Just on tax rate, what are you guiding on?

Tushar Morzaria

The tax rate will drift up. So for this year, when we look at consensus most people have the tax rate I think about right, in the low thirties. It's a little bit lower in the first half because the bank levy effect is accounted for in the fourth quarter. So it'll be a little bit higher in the fourth quarter and it blends out. Most people have it right in consensus so if there's anybody who's far off, I'll probably ask IR to point

that out to you, but I think most people have it about right.

Into next year, of course, we have the corporation tax surcharge. Again most of the folks that have written about this, I think you've got your numbers broadly right, at least when I average it through, some are a little bit high, some are a little bit low. There's plenty of research out there that collates all of your numbers and I think at the midpoint that's not a bad estimate.

Tom Rayner, Exane BNP Paribas

Can I just, sort of, stick with the end-state capital, please. Obviously you've explained the management buffer and it sounds like it's mostly there to capture potential volatility in the ratio, which is how I've always understood it. You say there's upside bias to the 12%. The ring-fence consultation, as far as I know, is still pointing to potentially a 3% systemic buffer to that part of the business and clearly there's no countercyclical element in your 12%, so the upside bias, theoretically, could be 100 or even 150 basis points and I'm just trying to get a feel for how, if that turned out to be the case and when I add the potential RWA inflation, which you might be able to comment on as well, what that means to the dividend policy, because the indication is flat for now and it feels that the need to build capital means it could be flatter for longer. Just wonder if you could comment on that, please.

Tushar Morzaria

Yes. The ring-fence, domestic SIFI, whatever we want to characterise it as, is still in consultation. We'll see how that plays out. In terms of dividend policy, one of the things that I felt the company got itself into was a very mechanical, formulaic dividend policy which probably wasn't the intention but that's how it was interpreted, and I know especially this community would like to make sure your models are accurate. It becomes quite difficult when we throw out an exact pay-out ratio for you guys not to model that and I completely understand that.

I think the best way to talk about dividend is that it's probably what it should have been all along, which is that we would guide over the course of the year how dividends will look for any one particular year and as far out as we can see. The objective is to be a progressive dividend payer that increases its dividend over time, that has a relatively high pay-out ratio, while maintaining financial strength. So Tom, we're not going to say, for example, that we'll only increase dividends when we get to 12% or we'll hold dividends flat until we get to 'x' and only then will we have a pay-out ratio. We're not going to go into those numerics. We'll give out as much forward guidance as we can see and for now that remains a flat dividend for this year and as we get into next year we'll guide more on what we think the outlook for that is.

But the philosophy is, and this is really quite important, particularly John McFarlane perhaps embodies this as much as anyone, we want to be a progressive dividend payer. There'll be a time when we'll be

able to do that. It won't be this year, though.

Tom Rayner

And can you add any colour to where we are on all of the debates about the changes to op risk and market risk and standardised IRB floors and on and on.

Tushar Morzaria

Yes, so wrapping that all up – not so much op risk – but that's sort of a Basel IV type label. I think if you take the three – market risk capital, standardised credit risk weights and potentially mortgage floors, shall we say – my sense is earliest implementation of any one of those three would be late 2016, probably more like 2017, but we'll know over the course of the remainder of this year as the rules are finalised and what the implementation dates are. But that would be my guess at the moment.

So it's more of a medium-term than a near-term headwind, and once we have those rules set and we know what the effect is, we can talk about whether there's any revised guidance. Our plan assumption at the moment is not to revise guidance, but we would wish to absorb that as best as we can. It's always hard to be definitive because we don't know what the rulesets are, so it's sort of a bit of a leap of faith here, but the rulesets will be within the realms of expectations and not something we're not anticipating.

I think operational risk RWAs probably is on a nearer term trajectory. We're on an advanced model, actually, so we're in a slightly unique position as a UK bank where our operational risk weighted assets are calculated on an advanced model rather than on a standardised basis; so the dialogue we're having with the PRA is to what changes we need to make to that, and we'll post you with as much notice as we can as there are changes that we need to put through.

Ian Gordon

Morning, can I have two, please. First of all, in terms of your general revenue aspirations could you just update me on your thoughts on the mortgage market. What's your thinking in terms of your position on product mix, risk appetite? Are you anticipating a material uptick in the gross market as re-mortgage activity strengthens? And if your risk appetite is broadly stable, which I think is normally your position, how do you see the market evolving around you?

And then secondly, just following up on the tax point, I'm assuming your comments were all around the adjusted ETR. Given that one of your peers has chosen to guide us for in effect perpetual, non-deductible conduct costs in perpetuity, would you care to share a similar level of guidance?

Tushar Morzaria

Yes, it's adjusted ETR. We'll stick to adjusted for now and we'll let you know if we need to change that.

On revenues and mortgage market, it's an interesting question but we are seeing, I think many of people have commented so it won't be surprising, but we are seeing new mortgage margin pressure, downward pressure on new mortgages, consistently I guess over the course of this year and I don't think it's stopped. I see it continuing into the third quarter, at least from what we see. It's a great business, having said that. We like the business, we want to grow with the business. It's still net interest margin levels [accretive] because we don't have a particularly profitable back book relative to some of our peers. It's still accretive to us. So we do like the business. We haven't changed our risk appetite and I don't think we will materially. We have enough risk capacity from the risk parameters that we've had running in the company for some time, that if we wanted to print more mortgages with slightly more risk, we have plenty of risk capacity to do that. We're well within our risk tolerance levels. But I don't think you'll see us move that much. We know what we know and it works for us. We probably wouldn't want to venture into parts of the credit spectrum that are less familiar with us.

One of the things that we don't do but other peers do, and it's something we've thought long and hard about and still decided not to, is: one way of protecting net interest margin is to have different mortgage pricing for different channels of origination. So at Barclays, whether you walk into a branch, whether you go through a broker or even if you go online, you'll get the same mortgage rates. Some of our larger competitors offer different rates, so if you walk into a branch it'll be a higher rate than if you use a broker, those kind of things. Now, it works for them, it's fine. We're not going to do that. It will mean that our front book margin will not be as rich as perhaps some others. That's quite a deliberate choice and more along the lines of trying to balance customer fairness, regulatory risks as well as net interest margin pressures, so that's one thing that we're passing on. Other competitors won't, they'll make their own risk tolerance which they'll use around that.

In terms of offsetting that NIM downward pressure, we've been able to manage to do that through really deposit repricing, liability side repricing. We're probably getting towards the end of our ability to do that. Our deposit rates are so close to zero right now it's quite hard to see that there's that much juice left in there. Others may have a little bit more capacity, they may have had to pay up a little bit more earlier so they'll have a little bit more to give back. But for us I think we're getting to the end of that road now. But it's still a good business for us, still accretive. We'll still have net interest income increase but there may be some dilution in mortgage NIM.

The other parts of our Personal and Corporate business, though, they're swings and roundabouts - Corporate is still okay, asset margins have a little bit downward pressure but not as significant as in mortgages, corporate liabilities. So everywhere else feels more stable, probably just mortgages are coming under pressure more than anything else.

Michael Helsby, Bank of America Merrill Lynch

I've got three, actually. First, Non-Core RWAs are clearly going off at a more rapid pace. They're almost at your 2016 target already. When you think about the drag on the group ROE for next year does that mean that you're going to be substantially below 3% now in 2016, which is obviously your old guidance? That'll be question one.

I think on the conference call you mentioned you tried to collate the drag that you've got from your abnormal legal costs and your deferrals, and I think you said three percentage points off ROE in the IB. I just want to clarify that and, I think it's about £650 million to £700 million of pre-tax. Does that resonate with you?

And then finally just on equities. If I look around the street, a huge driver of the performance in Q2 was derivatives. In fact I think that was the vast majority of the year-on-year growth for a lot of banks. But it doesn't strike me that you've got a big derivatives franchise so I'm wondering whether that's actually more of the reason why equities was underperforming. So I'd just love to get your thoughts on that. Thank you.

Tushar Morzaria

Thanks, Michael. On Non-Core RWAs, and really I think the point in question was more around ROE guidance for next year, I wouldn't change it yet. We guided to sub-3%. I think you're asking if it will be substantially below, I wouldn't guide to that yet. Partly because it's actually a more complicated calculation than may appear the case - it's a dilutive effect on the Group, so it sort of depends on how much the Core bank makes as well, so it is the delta between Group ROE and Core bank ROE rather than the absolute itself. So there are two variables: its own return as well as the Core bank's return. But it's the most intuitive way of understanding the cost of having the Non-Core unit, that's why we report it like that.

The other thing that's there, of course, is the ROE dilution will reduce as we exit these European retail businesses in more of a stepwise fashion, and it really depends on when we can announce and execute those sales. Actually, the announcement is one thing, but it's the closing that actually gets the financial effects and I just can't predetermine that. There'll be some hopefully before we get to the end of 2016, but hard for me to know exactly when.

On the Investment Bank, the ROE effect of restructuring charges, conduct litigation, legal fees, it's between 2% and 3%. Again, it'll ebb and flow. Restructuring charges are coming down a little bit so there's a proportionately lower effect than it would have had this time last year. But about 2% or 3% as a reasonable uplift, and as it reduces I'll let you guys know that it's gone away, if you like. The one place

you'll see it go away, obviously, restructuring charges we call out explicitly. Conduct and litigation, I'll guide more on; we don't call that out as explicitly.

In equities, yes, you're right in a sense that derivatives seem to be a good engine for fuelling revenues for some of our competitors and you're probably right to say our derivatives business isn't necessarily as significant. We're more primary activity led. Having said that, I think even if you looked inside some of the primary activity led cash businesses, there's probably some effect of a little bit of dark pools. They'll spill over into corporate equity derivatives as well. It's just very hard to measure so it does have a lingering effect. I don't think it's very significant, I don't think it's an excuse for us anymore and we're very happy with the returns that we had in the second quarter. If I just try and look at revenue trends and things like that I think that slightly intangible, broader effect has some meaning to it, and you're probably right, there's some mix as well.

If you take, for example, credit in fixed income. We were less impacted by credit in fixed income than perhaps some of our peers and that's usually because we don't have as large a securitised products business and a large distressed credit. So when those things move around a lot, we're just immunised from those moves, upside and downside, and there's probably a little bit of that in equities. That's not a bad comment.

Andrew Coombs, Citi

Morning, a couple of questions from me, please. Firstly on volumes, just to come back on the UK retail business and UK mortgages. When John was outlining his strategy and he talked about the growth potential, he talked about above market growth in both Barclaycard and Africa. There was no mention of Personal and Corporate Banking. Obviously from 2008 to 2013 you had above market growth substantially from UK retail. Over 2014 and first half 2015, that's pulled back to market rate so is that the expectation going forward in that business?

And the second question would just be on rate sensitivity, both to UK and US rates from Personal and Corporate but also from Barclaycard as well, and what the impact could be there.

Tushar Morzaria

In PCB, we don't expect the market to grow in huge scale but we should grow with the market. Occasionally we'll be above market and occasionally we'll be at market. Let's take mortgages as a good example: we were slightly above market, say our stock of mortgages was 10% and we were growing at around 11%, 12%. That's reasonably above market growth for us. We wouldn't expect to grow at 15% or something like that, and of course our stock of mortgages is very large relative to new production so it doesn't mean your stock market share grows dramatically quickly in any short period of time. We're probably more at the market [growth] level now as pricing pressure has increased and we don't want

to follow all the pricing in all products.

So that's a good way of thinking about it. At or above market is probably a reasonable expectation but not significantly above market. Particularly for our commercial bank, where we're already significant in size, UK private banking, these are big businesses where we have top slots in terms of market share; top one, two, three, four slots. We just wouldn't expect to grow that much bigger than the market.

Rates sensitivity, we're more geared towards the UK rising rates environment than the US generally, and that's really through PCB as a business. I think as and when rates hopefully normalise, the first one, maybe even two, possibly even three rate rises, I think you'll see a muted effect. Given that rates have been low for so long, I think banks probably won't be able to hold on to the full margin effect; they'll have to pass it through. I think after the second and third rate rise, then I think you'll see that flow through into banks' bottom lines [and] it's very accretive to us when you get into that space.

Barclaycard, it's a little bit harder to predict. We can, in theory, of course pass on asset pricing straight away and you would do in the US; it's much more of a pass through market. In the UK, I think it will be a little bit of a delayed effect so you will see some NIM followed through, but if rates are rising on the back of a healthy, vibrant economy with good employment levels then that's very good for that business and that's kind of what we're seeing at the moment - that public research I referred to, consumer spend trends, looks quite nice in the sense it's not exuberant increases in spending. It's low single digit above inflation, but it is low single digit and it's slight increases in ticket sizes, not enormous increases and so it feels like a good environment at the moment. But you can't really project that far out in a card business, maybe six months, so you've got to take a temperature check quite frequently.

Ivan Jevremovic, UBS

Speaking to PCB, I had a question on the corporate business where income has been growing reasonably strongly as far as I can tell, a bit faster than balances as well, so if you could elucidate on what's driving that and how that looks going forward.

Tushar Morzaria

Yes, it has been a good business for us, and as I say that's the beauty of having some diversification. Mortgage margins are compressing, you're seeing a little bit less income growth there because of the margin pressure, but we're not seeing as much of that in Corporate. I wouldn't expect that quarter on quarter growth that you saw, I wouldn't extrapolate that out; that was a very good quarter for us, I wouldn't expect that level of growth in subsequent periods, but a good business for us nonetheless.

Arturo de Frias, Santander

Hi, good morning, two questions please, one on capital allocation for Core. As you said, Core is the

image of the future Barclays and increasing capital allocated by 15 per cent is obviously a very important decision - the future ROE is now 15 per cent lower. Why have you taken the decision? Why have you increased the equity to Core?

That's one, and the second, on ring-fencing, could you update us on your thoughts, your impressions on future costs from two points of view; first of all the potential one-offs that we might see adapting the structures to the ring-fencing world, and then what is the ongoing additional cost that the business will incur because of ring-fencing. Thank you.

Tushar Morzaria
Capital allocation for the Core, really the way we think about this is, we assign the right capital to Non-Core, everything else by definition is the Core so as we reduce Non-Core we commensurately increase Core. Then within the Core, we allocate out to divisions as a proportion of risk-weighted assets so it's easy for folks. It's a bit more complicated than that, but you can actually get a proxy by just looking at the risk-weighted assets comparison. But as I say, it's a little bit more complicated than that behind the scenes. But yes, we have to increase profits in the Core to absorb that increased equity and we've been able to do that but it's a challenge for us to continue to do that.

In ring-fencing, I think this probably, in my view at least, it's an important transitional thing. So as we rotate funding from our operating company to the holding company, that's complicated and creates supply/demand issues and cost of holdco debt relative to opco debt. Obviously the costs of operationally gearing up to create a ring-fenced bank with all of the various risk controls and compliance controls and everything that requires, new customer accounts, porting customers, that's an expensive thing to go through. I think once it's all set up and the funding has been migrated and we're all TLAC compliant, I'm actually not sure there is that much significant friction. There was a question earlier on capital levels, they may or may not change, we'll see. But the operational running of the companies I don't think the aggregate is that dissimilar, but the transitional effects can be quite material and we'll work through that. We're looking to absorb all of those transitional effects within the guidance that we've provided. But when you get to the other side of ring-fencing and you're free of those one-time effects, I think it's in a neutral place.

Arturo de Frias
Sorry, just as a quick clarification; would you expect any sizeable one-off at some point or the business will absorb…?

Tushar Morzaria
I guess you can never rule this stuff out but the creation of the ring-fence and the rotation of funding, it will go through quarter by quarter. I don't think it will be one big provision that pays for all of that and

it's behind us. I think it's accounted for really as we go through the transition itself.

Sandy Chen, Cenkos

Actually just following along those lines, I was wondering is there any major change going on in the overall budgeting process, capital budgeting? I latched onto your comment about halving the capital allocation to, I think it was Macro that you said, and then just seeing what the results of that were. I'd just like to get a sense of really how that might roll out through this restructuring programme in terms of are you allocating capital and RWAs on the go-to post trading book review and all that kind of stuff, what those go-to RWAs would be, what the implications are in terms of cost allocation behind that within the budgeting process.

Tushar Morzaria

Yes, we try and future proof ourselves as best we can, absolutely, so we don't get caught offside on either internal misallocation or mispricing of business in anticipation of new rules. It's tricky to do with something like trading book review because we don't know what the rules are and we don't really know how it's going to affect us so there's a lot of guesswork in that. But where we can scientifically anticipate we absolutely do, and where we can't we do keep an eye on to the future, saying we don't want to delude ourselves that we're making a return that isn't sustainable next year or the year beyond, so yes. But it's a combination of art and science.

Sandy Chen

Okay, and then the follow-through on the cost; I'm thinking that if I was sitting there in Macro and then I've just effectively had my budget halved, what would I do?

Tushar Morzaria

Well it's a partnership, so I don't walk on to the Macro trading floor and say that you've only got half your cost, so go figure it out. It's a combination; they present a plan to us, we talk about it, we say can you do more here, less there or whatever, and it's their plan and they go and execute. It's not just some top-down random edict, it's very much a partnership.

Sandy Chen

Thanks.

Raul Sinha, JP Morgan Cazenove

Hi Tushar, if I can have two on conduct please. So on PPI, if you look at the year to date pay-out data from the FCA it's actually worryingly high relative to last year, it doesn't seem to be going away, so maybe you can talk about what's going on across the industry. I think you've probably got a more balanced perspective than other people. And then secondly on RMBS, if you can talk about what's the

sort of time line you think. One of your peers has obviously given us a long list of potential cases, what really is your focus in that market. Thanks.

Tushar Morzaria

Yes, PPI has been quite a frustrating thing for all of us, I think. The challenge we've got with PPI is that it is open-ended, in some ways. I don't want to use the word 'infinite' but it's an open-ended redress and you don't quite know when it will ever end. One of the reasons why it's very difficult for any of the banks to accurately project out PPI, at least one of the things I find hardest, is the number of false claims that come in, it really clouds the picture of what the underlying trend is. It takes a while when you get a false claim in to actually realise it's a false claim, you have to check that they haven't changed their name, their address, left the country, come back. You spend a long time actually figuring out 'okay, so you never really had PPI at Barclays?', 'I must not have then'. It's taken us a few days and weeks to figure that out, it's cost us a bit of money, and legally it's completely fine. So the CMCs that scattergun the banks, they're just peppering banks with random claims in some ways and it's very expensive to administer that. So that's the challenge to seeing the underlying trend. Having said that, underlying claims that we can see, the actual volume is coming down, that's for sure. At least for us it is and I imagine that's true for the other banks. But the older vintages, of course, with an eight per cent simple interest calculation, the volume of claims may be coming down but if they're going back further in time it could be equally expensive. So that's the dynamic that's going on. We are trying to think about long-stop mechanisms; at some point is there a statute of limitations that has to apply? Can you just go back forever? What are the economic incentives for the CMCs to continue scatter gunning the banks without really any recompense for false claims? So we are talking to anybody who will listen to us on those kinds of things, making some progress, but that's what makes it very hard to assess. So it's a tough one.

The other thing you're seeing is, and I think if I've got that right you will know this better than I will, but I think HSBC and even Lloyds, I think, when they reported after us were much more coy in what was included in their UK customer redress and I think you might see all banks doing that because the more information we give, of course it fuels the CMC behaviour. So we're almost doing their marketing for them in some ways. It's a tricky one for the banks because accounting standards and commercial interests come into direct conflict here. So it's quite a tricky one and I was quite intrigued, some of the banks took quite large provisions and didn't call it out. It would be good, I think, if the industry could get that right as an accounting matter. It sounds like there may be a solution that other banks have figured out. I think that might help the industry, may be a bit more frustrating perhaps for this community because it will be hard to know what's in there and how to model it out, but it's probably the right thing for the bank and its shareholders.

We have a long list of cases that we still need to resolve and RMBS is one of them; you've seen other

banks settle at quite reasonable sizes. I can't give you a timeline on it as you can appreciate, and these are ongoing, fluid discussions. I think it will probably be one of the larger ones that you will see over the horizon but I can't give you a specific time or quarter. It's something we'd love to put behind us, we don't control the timeline but we'd like to put it behind us and it will probably be one of the more significant ones that we still need to work through.

Paul Fenner, Societe Generale

I've got a question; a bit broader on strategy, if we look a little bit beyond the two or three year period that everyone seems to be focused on and quite a lot of wound-licking that's going on, what do you think you learned from the European retail banking foray and what do you think would get you back in there, if anything? Do you think there's going to be European consolidation? Do you want to be part of it? What do you see your role as or is it simply too early to talk about it?

Tushar Morzaria

I can't see us in any meaningful timeframe ever being part of European retail consolidation, or even any venture back into there. I think it obviously was a very bad move into and cost us an awful lot of money and did quite a lot of damage to our shareholders so it wasn't a good experience. And as you can see, we're here in 2015 and we still have banks in Italy, Portugal, France; these are difficult businesses to get out of, and very expensive, once you plant these flags. Wealth business is similar, where we've planted flags in many countries and un-planting flags is a really tough business to do. Investment banking was the same. So I think we'll be super-cautious before we go into new geographies and I can't see us ever doing that in retail, at least for any meaningful timeframe. Where we have been successful in international business has been Barclaycard, and the reason why we've been successful there is firstly we do believe we've got the best card business, at least in the UK, if not the world. And it's a very light business to go into other countries; so take Germany, for example, or Portugal, we're the largest card issuer in Portugal, the largest card issuer in Germany; even in Scandinavia we have a fairly reasonable business. It's a very asset-light business, very capital-light business, and very people-light business; you don't need physical branch networks, it's virtual. Our US business is virtual as well.

We can fund our German business and our US business through deposits, just through electronic offerings rather than through any branch bases. So I think that's a model that works for us and we have the IP, the know-how, and the track record of having to do that. I think doing other forms of banking in other jurisdictions; I can't see us doing any time soon.

Ed Firth, Macquarie

I hope this is an appropriate question but I didn't want the whole meeting to go without talk of the recent management changes and I guess reading it in the press, which is all I've got to go on other than your announcement, it did sort of give me flashbacks to pre-2008 and BarCap doing whatever it liked

and everybody else just having to fit in around whatever they wanted to do. I would welcome your comments about what was going on and what was the strategy behind all this, the thinking behind the changes and where we might see it go from there. And I guess secondly, related to that, I think I'd read somewhere that Tom King was leaving but then I've just heard you say that he's organising the new shape of the IB with John McFarlane, so just some sort of comment about that.

Tushar Morzaria

Yes, the papers have had a field day with writing about management changes at Barclays so I'm not going to comment any more on that, other than what's already out there. That's been covered, inches and inches of newspaper clippings there so I'm not going to add any more on that. Prospectively Tom is very committed to the Investment Bank, the plans that he's presented, the plan that the Board has supported, and it's working out well. You're seeing the progress and we'll continue to hopefully see that in quarters to come, so that's great.

John McFarlane is keen on finding a new CEO; I'm sure he'd want to do that sooner rather than later but in the meantime he's a pretty hands-on Executive Chairman and will run the place. He's not sort of letting the company drift along waiting for someone else to come in and run the strategy. He's actively finding someone as well as making sure the company drives forward in the interim. There's probably not much more I can say other than that, to be honest.

Ed Firth

So is Tom King leaving or not?

Tushar Morzaria

No.

Corinne Cunningham, Autonomous

Might be one more for Steve about MREL and your thinking on that. I just wondered if the European rules, so for example the German plans to officially make senior debt subordinated to deposits, does that change, do you think, the way that the UK is tackling MREL with holdco/opco structures, or do you think the UK will go on its different trajectory while Europe does its own thing?

Steve Penketh

I think there's still a lot of uncertainty around the table when the FSB have their discussions about the future shape of TLAC, and obviously the German passage of the legislation hasn't actually become law yet. It's an interesting one which we certainly have discussed with the UK regulators in the past; ever since 2009, from a UK perspective, I think people have looked at senior debt as supposedly next in line after Tier 2 and there was a big move in spreads in 2009 when the Banking Act came in in the UK. Our

discussions with the regulators have been 'well, surely the next logical step would be to change the insolvency hierarchy just to make that absolutely certain'. Because if you did that then you could have structural changes, like pushing people up to the holding company, without the fears of structural subordination because remaining at the operating company didn't necessarily protect you. Now to me that's the sort of thing which the FSB should be thinking about as a homogenous rule fit for the whole of the SIFI population, so everybody is actually treated exactly the same so you don't get jurisdictional arbitrage about the way in which TLAC is built up over the next four or five years. Do I think that's going to happen? Probably not, so I think that what we need to see from the FSB is just a uniform approach that actually ensures that everybody is in the same position when it comes to building these TLAC stacks over the next four or five years, with as much homogeneity as we can get so there isn't any jurisdictional arbitrage. I certainly don't expect the UK to change insolvency law; they've had a look at that on a number of different occasions over the course of the last five or six years. I think one of them was when the Covered Bond legislation came in for the UK to do regulated Covered Bonds, and it was determined that it was just too difficult in the context of set-off rights and all those different types of things that come into play when insolvency law is tinkered with. So I certainly wouldn't expect the UK to go there but I would expect that the FSB will be very vigilant in the context of making sure there isn't jurisdictional arbitrage for different SIFI banks in different countries when it comes to the TLAC build.

Corinne Cunningham

There's more holdco debt from UK banks then?

Steve Penketh

More holdco debt from UK banks, and to be honest, going back to things that we've discussed in the past, when you think about regulatory change, structural reform for the UK banking sector, as well as potentially what comes in Liikanen in Europe, frankly the one point of diversification that is a certainty is at the holding company. So our general comment, the fact that the holding company would be a better proposition for debt holders, I think remains pretty true.

Tushar Morzaria

I think we're pretty much out of time so again hope this was useful, please do give your feedback through to Kathryn in Investor Relations and we'll adapt these sessions to make them as helpful as we can. Thanks for your time this morning.

Important Notice

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

Forward-looking statements

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and Section 27A of the US Securities Act of 1933, as amended, with respect to the Group. Barclays cautions readers that no forward-looking statement is a guarantee of future performance and that actual results or other financial condition or performance measures could differ materially from those contained in the forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'may', 'will', 'seek', 'continue', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'achieve' or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding the Group's future financial position, income growth, assets, impairment charges and provisions, business strategy, capital, leverage and other regulatory ratios, payment of dividends (including dividend pay-out ratios), projected levels of growth in the banking and financial markets, projected costs or savings, original and revised commitments and targets in connection with the strategic cost programme and the Group Strategy Update, run-down of assets and businesses within Barclays Non-Core, estimates of capital expenditures and plans and objectives for future operations, projected employee numbers and other statements that are not historical fact. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. These may be affected by changes in legislation, the development of standards and interpretations under International Financial Reporting Standards, evolving practices with regard to the interpretation and application of accounting and regulatory standards, the outcome of current and future legal proceedings and regulatory investigations, future levels of conduct provisions, the policies and actions of governmental and regulatory authorities, geopolitical risks and the impact of competition. In addition, factors including (but not limited to) the following may have an effect: capital, leverage and other regulatory rules (including with regard to the future structure of the Group) applicable to past, current and future periods; UK, US, Africa, Eurozone and global macroeconomic and business conditions; the effects of continued volatility in credit markets; market related risks such as changes in interest rates and foreign exchange rates; effects of changes in valuation of credit market exposures; changes in valuation of issued securities; volatility in capital markets; changes in credit ratings of any entities within the Group or any securities issued by such entities; the potential for one or more countries exiting the Eurozone; the implementation of the strategic cost programme; and the success of future acquisitions, disposals and other strategic transactions. A number of these influences and factors are beyond the Group's control. As a result, the Group's actual future results, dividend payments, and capital and leverage ratios may differ materially from the plans, goals, and expectations set forth in the Group's forward-looking statements. Additional risks and factors which may impact the Group's future financial condition and performance are identified in our filings with the SEC (including, without limitation, our Annual Report on Form 20-F for the fiscal year ended 31 December 2014), which are available on the SEC's website at http://www.sec.gov.

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