29 April 2015

Barclays PLC

Barclays PLC Q1 2015 Results Announcement

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

Andrew Coombs, Citi

Good morning, a couple of questions on the retail and corporate banking divisions, please. Just firstly looking at the cost line, both in personal and corporate but also in Barclaycard, you've seen a quarter on quarter increase in both divisions; 4% in the former and 2% in the latter. Barclaycard perhaps slightly more explainable given the FX translation move, but just interested in a bit more colour there in what's driving the quarterly increase in costs.

And then my second question, which will be on the outlook for interest margins. In the commentary you drew out the mortgage margin pressure that you're seeing. Obviously you have been able to offset that by the overdraft re-pricing and also the moving deposit rate, but perhaps you could just outline your expectations as the year progresses given that ongoing asset margin pressure. Thank you.

Tushar Morzaria

Thanks, Andrew. I'll take the questions in the order you asked them, so just some of the cost trends that you're seeing in personal and corporate banking and Barclaycard. In Personal and Corporate Banking there's nothing really significant to report there on any quarter by quarter. We'll continue to drive costs down on the comparative periods and for something like PCB we tend to look year on year. And you've seen that in the first quarter we have continued to lower our cost base and showed positive jaws. I think it's reasonable to think that that will carry on for most quarters. It won't be linear, nothing's linear, but I think you should expect us to see positive jaws as a regular feature within the PCB business.

And that's really the fruits of all of the restructuring work that has been taking place in PCB over many months and years now with rationalisation of our branch footprint and increasing digital channels. I'll give you a little example of where you'll see some of that bear fruit in PCB. You'll probably recall the example I gave around personal unsecured lending for PCB at year end; we're getting quite a decent uptake in people taking personal unsecured loans through their mobile phones rather than walking into a branch and filling in layers and layers of applications. Well, March for us was actually one of our best months ever for personal unsecured lending, but what was more pleasing is that almost half of all the personal unsecured loans taken out in March, which as I say was a strong month, were actually done through the mobile phone or through digital channels.

Now, the beauty of that is, obviously, I think somewhat of a driver of our increase in market share in that business. It's a better customer experience, it's a better audit trail, but most importantly it's also a much better return for our shareholders because the cost income ratio for that channel is substantially lower than a physical application. So I think you'll just see more of that drip feed into the PCB cost line over time.

Barclaycard is a slightly different story there. This is a core growth business for us and we're very excited about the prospects that we have for that business. What we're really trying to do here is balance investing for growth but also generating really good returns. And even a quarter like the first quarter where you can see we increased our investment spend somewhat, particularly biased towards our non-UK businesses, we're able to deliver 21% ROTE and just a shade under 17% ROE. What that's going to allow us to do is continue to grow the bottom line profit in future quarters to come, and yet compound those profits at mid-to-high teen ROE. So I think over the course of the year you'll see that come through on the profits line, so we feel pretty good about that.

Chintan Joshi, Nomura

Good morning, can I have three, please. First one, you've been collecting detailed consensus now for quite a few quarters from us. I'm wondering when you look at consensus, when you look out to 2015, 2016, 2017, is there something that you think that the Street has got wrong? And in particular, I'm interested in your thinking around non-interest income, which has been soft for not only Barclays but for other UK banks for quite a few quarters now. Is this something that we are going to see - are there headwinds that you are seeing that offset some of the underlying growth? I just want to get a sense of how you are thinking about it. Is the Street getting this wrong? Because it feels like if there has been a miss in the traditional bank. it's more driven by this fee income line.

Second one is, if I think about Deutsche Bank's presentation the other day, it seemed to suggest a 20% RWA inflation in their business plan. Now, I recognise that Barclays has got more of standardised models, the regulator has not been allowing that aggressive behaviour in modelling RWAs as some of the German banks. But that 20% number implied is quite large and I wanted to see your thinking around that. Have you got additional thoughts on what RWA inflation you might be baking into your RWA guidance, because from £65 billion in Non-Core to £45 billion by 2016 feels really slow. So I'm just wondering how you see RWA inflation developing.

And the final one is a quick one. Just if you can give us some update on timing of various litigation items that might come in 2015.

Tushar Morzaria

Okay, thanks, Chintan. I just realised I don't think I answered Andrew's second question on NIM outlook, particularly in the retail space. Just to cover that one briefly. I think NIM should be broadly stable across actually all PCB, Card and Africa. There'll be, as Andrew called out, pressure on mortgage margin in the front book which we're reasonably comfortable with, but is real, but that'll be offset by actions elsewhere. So I think in the aggregate, across each of those respective business lines, a stable margin outlook is what I'd guide to.

Moving on to Chintan's questions, your question on a consensus for PCB. Now, of course we don't publish consensus [by business] and given that we haven't published it, Chintan, I won't call out anything specific. What I would say for net interest income, though, is that if you think about it in terms of broadly stable margins, which I think most of you do from what I can see, you've seen that we've been able to increase our asset production somewhat steadily another 5% or so year on year. And assuming the macro environment to stay where they are, which would be our base case at least for this year, you should see steady asset accretion and stable NIM generating NII.

I think the flipside to your question was how we should think about fees within those businesses. You've got two different things going on there; in Barclaycard there's obviously the change in interchange fees that are taking place over this year and the caps being put on interchange. It's not that big a component for our business - I think we said at year end it's around 5% of Barclaycard revenues. So it's going to be a slight shrinkage in that revenue pool, but it's not significant in the scheme of things for us and should be more than offset by other actions that we can take, and we'd expect to grow profit in the aggregate in Barclaycard. In PCB it's a little bit more complicated. You've seen that we've restructured our overdraft proposition but at the same time we're rolling out more clients onto cash management products, which is a fee-based product. So it's more of a mixed bag and a little bit harder to give specific items quarter by quarter.

Your second question on RWA inflation, I won't specifically talk about comparing us to any of our peers. Obviously I won't know the intricacies of those peers nearly as well as you do, or indeed as our own business. But for ourselves, we do expect RWA inflation. I think the review of the trading book - which is a little bit of an unknown still, we may get clarity on the specifics towards the end of this year with implementation probably further out still - it's hard to be definitive on what to expect there, but we certainly wouldn't be surprised if there's some RWA inflation. I think operational risk RWAs may increase over the course of the year. As you may know, we're on an advanced model which is higher than a standardised charge for us already, but I wouldn't be surprised if we take some inflation there, and I'll try and call these out with as much advance notice as I can.

I think other things like standardised counterparty credit risk weightings on mortgage scores, I still think are a little bit further out but we're monitoring that to make sure we can absorb that. We'll look to absorb that within the RWA guidance that we've given and not look to net increase group RWAs or divisional RWAs just for inflation, and try and absorb it where we can. But again, we'll keep you updated. That may not be a linear thing. You may see some RWAs go up before they go down as a consequence.

Timing of litigation; this is something some of you may have questions on but I won't be able to provide any more information than what's in our disclosures. They're fluid, real time dialogues that are going on with a number of agencies, number of regulators and a number of jurisdictions. All I'd say is, that as a management team, we're entirely focused and working as hard as we can to put these matters behind us, to resolve them as expeditiously as we can and as appropriately as we can and are really focused on doing that. And the provision that we took this quarter is really a sign of the progress that we're making.

With that, before I ask for the next question, just so that everybody has a chance to ask their questions and we don't spend several hours on this call, could you limit it to one or two questions each and we'll try and get through this as fairly as we can. So can we have the next question, please?

Raul Sinha, JP Morgan

Morning, Tushar. Can I have two questions, please. The first one is on the IB. The last time you talked to us, you said that you were approaching flat on the top line, so it looks like you've clearly had a pick up through the quarter. Could you maybe talk to us about any big, negative items that you might have to absorb in the IB in the earlier part of the quarter that might have depressed the performance relative to peers? And then related to that, your RWAs in the IB are broadly flat quarter on quarter but in the slides at the back you do call out a £5 billion reduction in RWAs driven by model changes on market risk. Is that all in Core, can I check, or was that some in Non-Core as well?

The second one is on the chairman's comments in his letter where he talked about a more dynamic reallocation of capital. I was just wondering if you can talk to us about what that might mean through this year, particularly on Barclaycard where you've talked about portfolio acquisitions. Should we expect you to do more portfolio acquisitions during the year? Thanks.

Tushar Morzaria

Thanks, Raul. So I'll take questions 1a and 1b together and then I'll come on to question two. So question one was the top line in the IB - did it have any significant negative items. I don't know if you're alluding to Swiss National Bank…

Raul Sinha

Yes.

Tushar Morzaria

I thought you might be. Nothing significant that we'd call out, and there was nothing that I would draw particular attention to. As you know, the trading business has had various ups and downs, so nothing I would call out in the round. Overall I would say that our macro business, I was particularly pleased with that performance because that's the business that's probably had the most adjustment made to it. We reduced RWAs by a very, very sizeable amount and actually reduced headcount by a very sizeable amount. And the folks running that business, Mike Bagguley and team, when you look at the revenue performance in a quarter like this compared to the historical time series that you'll see in our RNS, it's really pleasing that when it's a good trading environment that we're getting more than our fair share, both across rates and currencies. So very pleased on our performance at showing good, strong top line performance even on limited capital and human resource allocation.

The other place that we did pretty well, actually, was in debt capital markets. You know, we were involved in the five largest deals of the year thus far, increased our market share considerably, particularly in investment grade. We had, I think, pretty much a record revenue print for us, and in leverage finance, we think we had our second highest market share for us at least. So it's good to see that. We're more focused though, as you'd imagine, much more on profitability, and what was more pleasing really than the top line performance was the bottom line performance. Seeing profits increase by 37% was really what it's about so very pleased with that.

In terms of RWA changes in the investment bank, yes, there was a change in our market risk models that did cut across both the Investment Bank and our Non-Core division. So they both picked up a piece of that. The Investment Bank's RWAs, though, it's worth dwelling on a little bit. We gave a target of about £120 billion at May last year. If you translate that to current foreign exchange rates, cable was running in the high 160s then and was running a bit below 150 for most of the quarter. They're actually already running below 120, so the other very pleasing thing in the Investment Bank's performance is the capital discipline as well as the profits improvement. So lots more to do, but I think it's worth calling that out to you.

In terms of the chairman's comments and dynamic capital allocation, I think you're beginning to see this already. If you look at our Core business and you compare it year on year, the capital that we allocate to the Core business has increased from £40 billion to £47 billion. That's obviously quite a sizeable increase in capital. Yet the returns have actually increased year on year so therefore profits are higher year on year. Now, it's good to see that we're generating a higher return on a higher capital base in the Core business and I think that's what John's talking about - trying to be as dynamic as we can around capital allocation to ensure that when we free up capital in the Non-Core, we put it to best work in the Core divisions, which hopefully you're seeing evidence for.

We do want to allocate more capital to Card. We've increased capital allocation by about 10% to that business. We do have a good track record in organic portfolio acquisitions and to the extent we see opportunities to do that, we will take advantage of that and have done successfully in the past. But nothing I would guide to specifically. But we'll always be interested in those opportunities to the extent we see them.

Raul Sinha

Thanks very much.

Chira Barua, Sanford Bernstein

Morning, Tushar. Two quick questions on Cards. So one is both on Cards and PCB; the fee income drop, you've mentioned interchange. On one hand you're saying it is not material. I just want to understand the Q4 to Q1 drop in fee income both in Barclaycard and in PCB. Is it debit, credit interchange or is there something else working there?

The second is, the volatility in the margins in Barclaycard quarter to quarter. It's been very volatile in the last four quarters if I look at the RNS, so it would be great if you could just bring out the moving parts there. Thank you.

Tushar Morzaria

Thanks, Chira. In terms of interchange fees in Card, most of our income in Card is actually net interest income. We make most of our money through lending rather than charging for payments processing, etc. Now, payments processing is a great business for us; it carries very little capital, but the bulk of the top line is through lending. So fee income did go down and was impacted by the interchange changes that you're seeing taking place in Europe, and that was the biggest driver of the downward adjustment in fees. But in the round you can see that top line grew quite nicely and that's because we're biased towards net interest income in that business.

In PCB we made a change to our overdraft charging schedule for current accounts or checking accounts here in the UK, and that had an impact on our reported fee lines, at least in that particular line item. I think that will be limited for, you'll see that for the first couple of quarters of comparative periods and then will normalise as we go through the year.

In terms of Barclaycard margin, the Q4 to Q1 jump was really… you probably recall that I guided towards a change in particular [assumptions] that we were making, I talked about in Q4. So that just created a, if you like, one-time change in Barclaycard NIM for the fourth quarter, and you saw that drop down quite a bit and rebound back to where it is.

But if I look at the, just turning to the pages for the NIM disclosures in our RNS, 8.92%, 8.84%, 8.78%, these are still very high NIM margins and ten basis points here or there does get impacted by both the number of days in any one particular quarter - you've got a different number of business days in Q1 to Q4, that had a little bit of a wobble there - and also we're constantly refining the effective interest rate assumptions that we have for accounting purposes, so see a little bit of ins and outs there. But I think to perhaps be more helpful, looking at NIM in the first quarter for Barclaycard and how I think about it for the rest of the year; I think broadly stable is a reasonable assumption to make.

Chira Barua

Thank you.

Fiona Swaffield, RBC

Hi, good morning. Can I have a follow-up on operational risk weighted assets? They don't seem to have moved at all this quarter; can you talk through how they could potentially move, because in the past year or so, even though you've had settlements, they haven't changed. So could you discuss that a bit more please?

Tushar Morzaria

Yes, sure, thanks Fiona. Operational risk RWAs, I do anticipate some inflation that we will experience, but it's as much of a sector thing than an idiosyncratic thing, so the individual bank themselves having settlements isn't the only reason why RWAs could inflate in operational risks. It could be just general industry-wide settlements, or any other risks that are exhibited and would result in RWA changes. My guess is that we would expect to see that change over the course of this year and it could be as early as Q2, more likely maybe around Q3, but we'll try and give as much guidance in advance as to the time to think about that. I would say though, that in some ways, underlying RWA inflation and changes is a way of life for us and the steady capital progression that you've seen us able to achieve over the last year or so now is something that we remain firmly focused on and will try and call these out to you well in advance. But we'll try and absorb it as best we can as we go through the year.

Fiona Swaffield

Thanks.

Michael Helsby, Bank of America Merrill Lynch

Morning everyone, just two from me, thanks Tushar. Firstly, clearly you mentioned FX is a big deal for you in Q1. I was wondering if you could call out what the impact was on your leverage exposure, risk weighted assets, and on costs please? And then secondly, just in your remarks, you mentioned Non-Core costs; I think you said broadly halving in 2015 which I think is a new piece of guidance. Can I just check what baseline you're measuring against there? Is it the op ex line, the £1.5 billion last year, or are you wrapping into that the litigation and conduct, and the bank levy, and the costs to achieve as well? Thank you.

Tushar Morzaria

Yes, thanks Michael. I'll take them in the order you've got them. So on foreign exchange, in terms of leverage and RWAs, it did inflate, if you like, the headline leverage exposure and risk weighted assets. As sterling weakens, our dollar referenced exposures get translated to a higher level in sterling. The reason why I don't call these out specifically is because we're quite well-hedged as a ratio matter. So of course our capital levels obviously change with foreign exchange rates as well, and so the ratio captures that all. So the increase in CET1 ratio wasn't materially impacted in itself by changes in foreign exchange rates and the same is true for leverage ratio. And even though the headline leverage exposure went up, somewhat driven by exchange rates, the ratio we kept flat at 3.7%. The only point I wanted to make for the IB itself, because we were very specific on the amount of RWA consumption that the IB was targeting and just wanted to let folks know that they're operating at that consumption level already. You can't always see it with the headline FX rate.

The Non-Core costs, yes, my jumping-off point is the £1.8 billion in round numbers that I referenced at year-end. So I think, from memory, that's everything excluding CTA charges, and we should be about half of that.

Michael Helsby

Okay, thank you, that's helpful.

Peter Toeman, HSBC

Morning, Tushar. I suspect you've already answered this question already but I'll mention it because you have gone through your £400 billion RWA target, and you seem to be giving the impression that future changes in regulation can still be absorbed within that £400 billion target. So I just wondered if you could provide more colour on that, and whether my interpretation is correct?

Tushar Morzaria

Yes, thanks Peter. Our objective is certainly to do that. We're running a bit lower than £400 billion at the moment, and probably as I say on an equivalent foreign exchange rate, even lower than that. And you can see that reflected in our capital ratio. We will look to absorb all kind of RWA headwinds within that guidance. It won't be linear, I can certainly anticipate quarters where headline RWAs would go up and then we would look to work them down over time because some of these increases can be quite significant in any one quarter. But our real objective here is to steadily accrete capital; we won't see capital increases literally every quarter but we do want to want to, on a trend basis, steadily accrete capital, and discipline around RWA management is going to be key to that for us.

Peter Toeman

Thanks.

Tushar Morzaria

Hopefully that answers your question, Peter. Could we have the next question please?

Martin Leitgeb, Goldman Sachs

Yes, good morning. On capital please, if we were to assume that the trading book review were to be implemented as it stands now, could you give us a sense of what the implications would be on the risk weights of Barclays as of now? And just a quick follow-up on the leverage ratio; how comfortable are you with the current 4% target? Just in light now, that we have some of the European large cap banks targeting 5%. Thank you.

Tushar Morzaria

Thanks, Martin. On the review of the trading book, I can't give you any specifics, we just don't have enough information to form a very accurate calculation and know the impact it has. So we'll keep you posted as we get more information, although I suspect it will be made public to everybody so we'll run the calcs alongside you guys as well, I imagine, and we'll update you as best as we can. The one thing I will call out, and someone mentioned it earlier in the call actually, for market risk weighted assets, obviously that's where the trading book will be impacted, we're more biased towards the standardised models than perhaps many of our peers, so that might act as some sort of mitigation as a relative matter for us. But let's wait until we get the final rules before we can talk more specifically on that.

In terms of leverage ratio guidance, I'd reiterate, a lot of people say 4% and I keep on reminding everybody it's greater than 4%. The words 'greater than' are very deliberate and we'll look to get to 4% as quickly as appropriate and then run over 4%. I think that's reasonable for us. Our shape and size is very different to perhaps other peers; our largest division is our PCB division, it has the most capital, the most risk weighted assets, the biggest set of earnings, and I look at that as the central part of our company. A leverage ratio of 4% with that shaped company feels appropriate to us, and to the extent we need to change that, we obviously will do. You've seen the Bank of England/ PRA guidance on what UK banks need to run in terms of leverage ratios, so above 4% will take us comfortably above any regulatory minimum as well.

Martin Leitgeb

Could I just quickly follow up on the trading book review? How likely do you think it is to be implemented in the current form?

Tushar Morzaria

We'd all be guessing, to be honest, Martin. I think there will be further work that's ongoing, further reviews that are taking place, and I don't think it's reasonable to speculate as to what the final form would be. Plenty of distance to travel yet I think.

Martin Leitgeb

Thank you very much.

Tushar Morzaria

Can we have the next question please?

Chris Manners, Morgan Stanley

Good morning, Tushar. Two questions if I may? First one was just on capital; it did look to me you crept up your capital target from 11.5-12% to circa 12%, and so I thought I would just ask you about how you see that evolving?

And in relation to that, I see you're doing a scrip dividend now; your payout ratio that you're guiding, would that be a real cash payout ratio that you would be targeting there, the 40% to 50%, or would that actually include a scrip component so be diluted a little bit? And the second question was on impairment; obviously 37 bps in a quarter is really good. I know we always used to get Robert Le Blanc and he would explain about the impairment trends. I know people aren't so focused on them at the moment, but do you think you might stick at a lower impairment charge for the moment, or how is that evolving? Thanks.

Tushar Morzaria

Yes, thanks Chris. In terms of capital objectives, CET1 objectives, the way I really think about this is rather than perhaps just talk about an absolute level, it's perhaps more helpful to talk about the buffer that we would choose to run above a minimum level. And I think based on everything we understand today, somewhere around 150 basis points above a minimum level would feel appropriate. Now the minimum level for us today is 10.6%, that's with all the buffers fully phased-in with a pillar 2a add on. Now that may change in the future, Pillar 2a obviously gets determined year on year. We may have counter-cyclical buffers and there may be refinements as a result of stress-testing that are relevant as well, but if I put it into everything we understand today, the 150 basis points above 10.6% gets you to around 12%, and that's really how we think about it. Of course it may change in the future and we'll adapt accordingly.

You mentioned dividends, we actually don't pay a scrip dividend, it's all cash. Some people choose to take it as scrip and it varies actually, quarter by quarter, how many people prefer to take a scrip rather than the cash, but it is actually a cash dividend. And that, I think, will be at least the current status, and policy is to remain with a cash dividend rather than change that.

Impairment levels; you're right, they are running quite low and 37 basis points is about as low as we've seen for goodness knows when. I would say our credit risk metrics are pretty stable, not really seeing any signs of distress or early warning indicators that are concerning. Having said that, we are still getting some benefit from one-time recoveries. It's becoming less and less, so I think as we go through the course of the year, some of the lower levels of impairment we saw last year were influenced by one-time recoveries which we're running out of, frankly, so I would certainly caution people to take our current impairment charge and straight line that. That almost certainly won't be the outcome. I think you would expect current numbers times for the overall impairment figure to be higher than that. And when I look at consensus that we published last Friday, I don't think that's unreasonable where you guys are projecting impairment at the moment. I just think Q1 was quite low, but I doubt if it will continue at such a level continuously.

Chris Manners

Thanks very much.

Tushar Morzaria

Can we have the next question please?

John-Paul Crutchley, UBS

Morning, Tushar, morning all. I have two questions on the shape of your business; the first on Barclaycard and the second was on the wealth part of PCB. Just on Barclaycard, you call out on the slide nearly 17% return on equity as showing us the healthy, sustainable returns of that business. But it is, of course, substantially down on where it was a year ago. Now that business is obviously shifting in terms of mix and profile as it becomes international, [less] UK-focused, but the question I was interested in was in terms of whether you think this level of return is what you would have looked to sustainably generate going forward, or are we still seeing a re-basing of the overall returns for that business so that as the proportion of overseas business continues to pick up we should expect RoE to track down? Obviously still giving accretive earnings and accretive to cost of equity, but over current levels, so I just wanted to get a feel for how you see that business evolving.

And the second was just on the wealth bit of PCB, where it looks like income deposits and lending all went backwards in the quarter. I was intrigued as to what was going on there because historically that was a key growth component of the business as well, and it doesn't really seem to be moving forward. And I just wondered if you could just provide a bit of colour about what's going on in that part of the division?

Tushar Morzaria

Yes, thanks JP. On Cards, the good thing about the Card business is it's a good growth engine for us, and when we're trying to grow the business, what we're trying to balance is investing for growth but continuing to keep superior returns posted. So what you're seeing in the first quarter of 2015 is a spurt of investment spend going through the books, which brings the year on year comparison on ROE down a bit, but I think the outlook is to continue to grow profits at healthy levels, and continue to have adequate returns. And I wouldn't look at it quarter by quarter - perhaps looking on a calendar, full-year basis is a better look-through. Operating in the mid-to-high-teens I think is where we'd like to be targeting. Now as the balance of business becomes less and less UK-centric, which it will do over time, the non-UK parts of the business won't exhibit as high an ROE, although they will be still high ROEs, just as a relative matter won't be as high ROEs as the UK business. So you're just seeing a little bit of that re-basing going on, but I don't think you should expect much more downward pressure on ROE. I think you should expect to see reasonable increases in profits and reasonable returns in the mid-to-high-teens on a trend basis.

John-Paul Crutchley

So the non-UK business is at least a mid-teens type ROE business that you're growing, effectively?

Tushar Morzaria

Yes, that's right. Now it is, if you like, in a cruising altitude steady state. Obviously as we invest in that business, the ROEs will be a little bit lower as we go through that investment.

Yes, on the wealth business, there is a geographic mix here, so in the UK we're the second-largest private bank and have a very nice shaped business, nice returns, nice prospects, as you'd imagine, given who we are in the UK. You've seen us change the balance of our geographic mix outside of the UK, so you're seeing some of that come through in our revenue line, and in our deposits and assets for that matter. I think, again, over time, that re-balancing is taking place and you should see better, if you like, cleaner comparisons. But I think at the heart of it, we're UK-centric in our private banking wealth business, with decent businesses in Asia, and we obviously have a US business as well. But that's really what's going on there.

John-Paul Crutchley

Thanks, that's helpful.

Tushar Morzaria

Thanks. Could we have our next question, please?

Tom Rayner, Exane BNP Paribas

Good morning, Tushar. Can I ask you a couple, please, first on litigation, second on costs. Legal and regulatory provisions on the balance sheet are about £2.5 billion now, of which £2.1 billion you've indicated is for FX. I guess just focusing on that part first; according to media stories, a settlement with FCA and DOJ is probably fairly imminent so I'm suspecting that much of the recent increase in that provision reflects that part of the FX story. I'm just wondering if you can comment at all on the DFS and what's happened previously, and what's been said more recently about their own investigation and whether the provision of the £2.1 billion has any element in that to cover potential costs from that part. And when I look at the remaining £400 million, again just thinking about the various RMBS issues with FHFA and the Department of Justice, and again that seems quite a small number relative to some of the other settlements we've seen out there, so I was wondering if you could comment quite generally, without obviously giving anything that you're not allowed to say, on that issue.

And I have a second question on your Core cost target please - the question is how confident are you still on the £14.5 billion, because it looks from all the other guidance from Q1 from what you're saying on bank levy, that Core costs will be somewhere around £15.5 billion this year. You may dispute that, I don't know, but that leaves you with a whole billion to still take out in 2016 to meet the target; it just seems quite challenging. I just wondered if you've had any thoughts about that target or whether it's very much as you were before?

Tushar Morzaria

Yes, thanks Tom. On litigation, there's not a whole lot I'll be able to say on that, and as much as I know you tried to phrase it in a way to try and get some information, there's not much I can say either in terms of the timing of the settlements or indeed who's going to be party to that. And obviously you know the reasons why. Unfortunately, these are ongoing, fluid discussions, with a number of regulators, number of geographies etc. and I'm not going to comment on press stories around timing and who's involved.

But we work as a management team and I can assure you that we're super-focused on this. I mean, we're working as hard as we can to get these matters resolved in the most expeditious way, and the provisions are taking us close to that point but we can't give you any more detail than that unfortunately.

In terms of the remaining provisions though, you called out FHFA. We actually have settled FHFA so that happened over a year back. In terms of the remaining provisions, again, we can't give you specifics as to which particular cases we've provided for or not. You've obviously seen all the cases listed in our annual report that was out in early March. Nothing has changed since then otherwise we would have reflected that in the RNS itself if it was material to disclose. So I'll refer you back to that, which I'm sure you've already digested but can't give you any more details on that.

On the Core cost target, what's interesting there is, I think we're one of the few banks that have been very specific around our cost objectives in terms of giving it an absolute cost to measure, which we feel is the right thing to do, the clarity that provides. Of course the disadvantage of that is foreign exchange rates can bounce you around and at the moment, with the weak sterling, it's actually inflating our cost base. And if I was to retranslate the target for this year, before I come onto next year, the £16.3 billion for the Group this year at current exchange rates - because when we did set it, the cable was running just a bit below 1.7 in early May last year - you get to a several hundred million pound increase in that cost target. And of course the bank levy [rate] is going to go up by [around] another 40%.

So we want to eat as much of that inflation as we can and that's our objective, and that's our target for this year. But I do want to point out, if cable continues to weaken, that's going to put a lot of pressure on us. And we won't do things that are damaging to the business, but to the extent it's sensible to revise guidance, we will do. But we're not doing that at the moment. The same will obviously translate itself into the Core costs for next year.

So the other thing I'd probably draw your attention to is, because of the nature of foreign exchange rates and the difficulty in predicting what they'll be in any one quarter to the next, another way of knowing how well we're performing is cost income ratios. And if you look at Group cost income ratios, they fell from 67% down to 64%, and likewise Core cost income ratios fell from 63% to 61%. You'll see that in the RNS. Now, that obviously captures the full effect of FX on all line items.

So we feel pretty pleased with our cost performance but are experiencing very significant exchange and bank levy related headwinds, which we're at this stage continuing to look to absorb.

Tom Rayner
All right, thanks a lot.

Tushar Morzaria
Thanks. Why don't we take another two or three more questions and then wrap it up? So can we have the next question please?

Fahed Kunwar, Redburn

Hi, morning. Just one question; it was on the Non-Core. Obviously it was a very good performance in this quarter, but just thinking about a ramp going forward of the £180 billion. By looking at your RWA number, the derivative portion of it, the £31 billion basically hasn't changed since December 2013. So I know you're running down more and more the ex-derivative business, but looking out past 2016, considering your costs are probably going to stabilise at the £250 million level, to get rid of that £31 billion, you've got to do more than compression and tear-ups. Are you going to start to see increased costs and more significant negative revenues as you try to move that £31 billion down to zero? Or are there reasons as to why that number hasn't changed over the quarter, the whole of the Non-Core rundown? Thanks.

Tushar Morzaria

Yes, the £31 billion, so that's risk weighted assets; I think the £180 billion you quoted is more the leverage exposure. It's important that we make that distinction. You'll know this, but line item reduction will impact the leverage but won't necessarily impact risk weighted assets. The risk weighted assets is more counterparty credit risk, so these are coming from uncollateralised derivatives which are few and far between, but expensive as a counterparty credit risk, RWA matter, not particularly impactful to leverage. Leverage is impacted by actually a large number of collateralised derivatives. So we're working on both actually. We see leverage actually has been coming down. You mentioned tear-ups and you can see that comes through our leverage measures.

The risk weighted assets; it's a different discipline in a way. With leverage it's more of an operational grind through the portfolio, tearing things up, back-loading them onto clearing houses etc. With uncollateralised derivatives, these are helping clients restructure, innovate, reset those derivatives, and given that they're non-collateral posters by and large, these are a different client set than your typical institutional client. I'd say it's more of a a banking relationship than a typical sales trading relationship, so it will happen. It will take a bit of time. I'm not anticipating that to be necessarily very expensive but it has a different discipline to it than leverage, which is more of a grinding it out quarter in and quarter out.

Fahed Kunwar

So is it just that you've been focused on other things as to why that number hasn't moved for the last four or five quarters?

Tushar Morzaria

No, we are very focused on it. I don't want to make too big a deal of it but there is the foreign exchange rate component going on there as well. So it probably belies what's really happened underneath because if you look at this year to last year, the big weakening in sterling inflates that number because quite a number of those transactions are dollar denominated. But we are working hard on that and we'll continue to make progress on that. You'll see that in subsequent quarters.

Fahed Kunwar

Okay, thank you.

Tushar Morzaria

Could we have maybe a couple more questions? We'll take one more and then we'll have one final one.

Manus Costello, Autonomous

Good morning, just one question from me. I was looking at the leverage exposure in the Core bank which rose pretty sharply versus year end, about 7% I think. I appreciate that FX would have been a part of that, but only a part of that, and I wondered if we should conclude that with that exposure now rising, you're quite comfortable with the Core bank now adding to leverage exposure, and any improvement in leverage ratio is going to come through capital build and Non-Core run-off? And actually, the foot is off the throat, so to speak, with the Core business in terms of managing its leverage exposure?

Tushar Morzaria

Yes, you're right. Obviously the bulk of the deleveraging was in Non-Core and was offset by an increase in leverage exposure in the Core. Some of it was foreign exchange, but some of it was just seasonal effects. You can imagine settlement balances generally tend to run lower at the end of a trading year just because of the holiday period from Christmas to New Year, so you have lighter settlement balances running on your balance sheet.

In terms of, from this point on, reductions; obviously Non-Core, we've been quite specific on guidance and we'll continue to target the targets that we've already set for that. I think you will see Core leverage continue to glide down a little bit, but as you can see, we'll be more judicious on how we can deploy leverage where we can. What we're really targeting at the end of the day, is a greater than 4% leverage ratio. We'll get away there by deleveraging out of Non-Core, but you'll see some continued reduction in Core. And really as we continue to become more efficient ourselves in terms of capital management, I think you will see some benefits there as well.

Manus Costello

Sorry, just to be clear, because it's not really gliding down at the moment - it was up - are you saying that this is partly a seasonal effect that Q1 is always just higher and actually if we were to get to the end of 2015, broadly speaking, you should be gliding down versus end 2014 in Core?

Tushar Morzaria

Yes, I think that's a reasonable assumption. Q1 and Q4 is always a little bit of a wobbly seasonal effect because of the, particularly, settlement balances, the trading books just tend to be lighter at year end. But your point is probably a fair one; you'd expect year on year, like for like to be a bit lower in Core as well.

Manus Costello

Thank you.

Tushar Morzaria

Could we have the last question please?

Shailesh Raikundlia, Espirito Santo

Hi, morning Tushar. I just wanted to ask one question on the IB returns. Obviously it's been a pretty strong quarter this year and, so far in 2015, and we've seen return on equity still at 9.1%. I was just wondering whether this is as good as it gets in terms of the returns for the rest of the year? Or do you feel that you can reduce costs significantly more going for the rest of the year, because I don't see how you get to your Core 12% Group ROE given the fact that the IB is running pretty short of that. Thanks.

Tushar Morzaria

Yes, thanks Shailesh. The underlying ROE in the IB obviously, as I said earlier on, is higher than the reported 9.1%. It's actually pleasing that we're already getting close to double digits already. On an underlying trend, if the deferred comp gets normalised to current comps levels for the accounting effect, those restructuring charges and conduct litigation, we'd be comfortably in double digit territory in the IB. Now, of course that doesn't mean that we're finished on that journey. We've got further work to do. But it's pleasing that we're already in double digits on an underlying basis three quarters into the very substantial repositioning that we did in the IB.

You will see, and we will continue to target further cost improvements and we're very focused on improving profitability rather than just top line in of itself. And we're very confident we can get the IB there. We're getting better at deploying our capital, you can see that. I've mentioned to you that our risk weighted assets utilisation continues to become quite productive in the IB, and the folks running the business there are really showing some really significant improvements as well. So I remain confident that we can get there, and I think this quarter is a good proof point of that. The franchise holds up well, the returns are improving and on an underlying basis, in a quarter like this, we're already in double digits, confidently in double digits. But I take your point, Shailesh, and it's a correct one. We still have further work to do and we're certainly not finished the journey yet.

Shailesh Raikundlia

Yes, and just a follow up, in terms of the RWA inflations coming from the trading book review and stuff, I guess these are more of a 2016 story and also literally the impact of the bank levy will have a more negative impact than was anticipated given the significant rise.

Tushar Morzaria

Yes, I think fundamentally the trading book, don't think will inflate RWAs this year. It may not even happen in 2016. It depends on the lead time for implementation. So bank levy has gone up. It has actually been going up for a number of years so it's just what we're used to unfortunately. And every time it goes up, we assess what businesses continue to be appropriate and profitable and sensible for us to be doing, and adjust accordingly. That's just a way of life for us. It's nothing new this year versus the previous years that the bank levy has been going up and up and up steadily, and I'm sure all banks are doing the same thing as we are on that. That's just part of running a business I think.

Shailesh Raikundlia

Okay, thank you for that.

Tushar Morzaria

Okay. Well, that's the final question. Thank you, everybody, for joining us. Hopefully this has been helpful and we'll get a chance to speak perhaps in person over the coming days and next week.

Thank you.

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 certain of the Group's plans and its current goals and expectations relating to its future financial condition and performance. Barclays cautions readers that no forward-looking statement is a guarantee of future performance and that actual results 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 payout 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 Transform Programme and 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 (IFRS), 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 the Group; the potential for one or more countries exiting the Eurozone; the implementation of the Transform 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 are identified in our filings with the SEC including our Annual Report on Form 20-F for the fiscal year ended 31 December 2014, which are available on the SEC's website at www.sec.gov.

Any forward-looking statements made herein speak only as of the date they are made and it should not be assumed that they have been revised or updated in the light of new information or future events. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange plc (the LSE) or applicable law, Barclays expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in Barclays' expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Barclays has made or may make in documents it has published or may publish via the Regulatory News Service of the LSE and/or has filed or may file with the SEC.