31 October 2012

Q3 2012 Interim Management Statement

Question & Answer Session

Question 1

Jason Napier, Deutsche Bank

Hi there, three please if I might; first, there's been a lot of comment in the media particularly from members of the Bank of England's FPC Committee on bank capital adequacy, I wonder whether you would be able to be explicit as to the capital targets that Barclays has been set, say, for 2013.

Further Question

Second question, both of the Swiss banks are now talking openly about having leverage targets for balance sheet leverage on a simple basis. And we understand that the BoE are also looking at, sort of, more simple measures of that kind of nature and I wonder whether, you know, we're at the stage yet where we can know what those sorts of targets are going to look like; how it might be calculated and so on.

Further Question

Then, lastly, just looking at margins as a, sort of, picture of stability in the third quarter and I just wonder, given, sort of, some of the more positive things that are going on in terms of the FLS, perhaps some of the pricing in the UK deposit market, LIBOR and a smaller liquidity pool, are we looking at a picture of, sort of, stable margins from here and what would be the right sort of expectations into next year on them?

Answer: Antony Jenkins

Thanks, Jason, so I'll take the first and the third points and I'll ask Chris to comment on the leverage point. On capital, we acknowledge that this has been an area of intense focus for many commentators in the space over recent weeks and, of course, it's an ongoing discussion between us and our regulators, many of which I've participated in directly. We have received a letter from the FSA which quoted an absolute core tier one capital target for the end of 2013, which was the same target we had previously shared with the FSA as part of our capital plan.

We continue to operate at a core tier one capital level of 11.2% which is a strong level and we believe that this dialogue with the regulators will continue, but will continue to be in a positive sense. We're confident that we can meet the requirements on capital for core tier one and the broader capital stat going forward. So I would say that the dialogue is constructive, which is, perhaps, not always the impression you might receive, but it is indeed that.

On margins, we do think that our margins are broadly going to be stable from here going forward, but, Chris do you want to touch on the leverage question?

Answer: Chris Lucas

Let me touch on leverage. There is a lot of work going on and a lot of interest by the FCC and the regulators about leverage. What there isn't yet is a target that's been set for any institution that we're aware of. We are working with them in terms of technical issues, like the definition of leverage and they have requested that there will be some disclosures of that at the end of the year. That will be the next step and I think in terms of capital requirements or leverage requirements that will follow into 2013 and beyond.

Jason Napier

Thank you.

Question 2

Tom Rayner, Exane BNP Paribas

Good morning, Antony, good morning, Chris. Can I have a couple, please, the first one on your FICC business, just trying to get a better handle on the, sort of, quarterly progression. Because obviously Q2 in terms of revenue you outperformed your peers quite markedly, down 18 versus, sort of, circa down 40. Q3 peers are up, circa 15%, you're down 20 and I'm just trying to get a sense, when I look at the year-on-year progression in the first three quarters of this year, it looks fairly stable, plus nine, plus 15, plus ten, most of your peers are having big swings, positive and negative. So I'm just trying to get a sense what it is about your FICC business that, sort of, gives you a different and possibly less volatile progression in terms of revenue. And I have a second question, if I may, on capital.

Antony Jenkins

Do you want to ask your second question, Tom?

Further Question

The second one really is in light of the, sort of, announcement today on the new enquiries from US regulators and whether you're still comfortable that, sort of, 9.5% fully loaded is adequate in light of, sort of, potential, I guess, further provisions to be taken at some point in the future.

Answer: Antony Jenkins

I'll answer both of those questions; Chris may want to add on the capital question. Let's talk about the investment bank performance in Q3, particularly with regard to FICC. Our model is a conservative model which means that we tend to outperform our competitors when markets are weaker and perform less well than them when markets are stronger. And you can see that pattern in Q2 and in Q3. It's important to note that, in terms of flow we haven't lost any market share in Q3, so I would describe the performance in Q3 as actually pretty solid.

I'm pleased also that we can continue to manage our costs within our cost to net income ratio and that we've improved compensation ratio from 46% last year to 39%. Also important to note, of course, that ROE was strong at 14.2% up from 12% in 2011 and that would put us in the top quartile of our peers. I think this is a reflection of our business model as much as it is a reflection of anything else. I know you asked your question specifically about FICC but we're also particularly pleased with our performance in equities which is up 26% quarter on quarter.

With regard to capital and the disclosures that we've made today, you know, we continue to believe that the organisation is adequately capitalised, given everything that we can foresee. I don't know, Chris if you want to add anything to that.

Answer: Chris Lucas

I think that's right and one of the things we have is a barrage of numbers which, you're absolutely right, shows a fully loaded core tier one ratio at the pro forma December 13 of 9.5%. I think probably better comparator with our ratios today is the 10.4% which we refer to as the transitional core tier one ratio and at that level, that level of capital I absolutely think we're appropriately capitalised.

Tom Rayner

Thanks guys.

Question 3

Chris Manners, Morgan Stanley

Good morning everyone, I had just a couple of questions, if I may. The first one was on liquid assets; I see you've cut the liquid asset buffer by around £10 billion in the quarter and obviously the FSA has made a number of changes, changing the tiering system as a ILG and also allowed composition of the buffer. Are you going to be, sort of, taking this buffer down a bit further and maybe give us an indication of how much relaxation of the buffers could help your profitability?

Further Question

The second one was just on Africa, notice the PBT contribution, you know, sharply down versus, sort of, run rate over the past couple of years. Obviously you've had impairment losses in Absa and provisioning top-up. Just wondering, actually, maybe about the revenue trajectory going forward and how you see that developing and recovering profitability there.

Antony Jenkins

Chris, thank you. I'm going to ask our Chris to talk about liquid asset buffer and then I will come to the question on Africa.

Answer: Chris Lucas

Chris, good morning, you're absolutely right that we have reduced the overall size of the buffer and we are also looking at the composition very carefully. And that's because, I think you heard me say, our first objective was to get the liquidity buffer, and the second objective which is subordinate in all respects is to maximise the carry that we can get from the buffer to the liquidity pool, to enable us to reduce the overall impact in costs.

When we first built the liquidity pool, we gave you a number of about £1 billion of cost as a result of running that pool. That has come down because of the change in composition to somewhere around about £500 million, that sort of number. So we will continue to do this but with one absolute critical factor; the liquidity pool has to be a pool of liquidity that's available to us, first, and optimised in terms of cost, second. And we will never sacrifice the first for the second.

Answer: Antony Jenkins

Thanks, Chris. Let me talk a little bit about Africa. I continue to believe that the long term macro prospects for Africa are very good. It is likely to be the fastest growing region of the world over the coming decade. There are many reasons for that. Firstly, because of course it's a very commodities-rich environment. Secondarily, there is a lot of inbound investment into Africa, particularly from China. We're seeing increasing political and social stability. Increased democracy, the rule of law, emergence of a middle class and so on.

So the macros are attractive you take a decade long perspective. I also believe that we are very well positioned in Africa. We're the largest bank on the continent. We have substantial franchises in countries like Kenya and South Africa. And, of course, in countries like Kenya, Zimbabwe, Botswana we've been there for many years, in some cases over 100 years and as such we're seen as much as a local bank as an international bank. So when you put those two things together, Africa is a very interesting strategic opportunity for the Barclays Group.

However, when you do business in the developing world there is always going to be more volatility in that environment than you see in the developed world. That's partly driven by economics and partly driven by the political environment and, as we saw last year a lot of disruption in Egypt. We've seen disruption in the mining industry in South Africa and so on. I'm very positive on Africa in the longer term and if I turn to the, sort of, short term performance of our business, I think our business has performed well across Africa.

Two of our biggest businesses you don't see reported directly; they're the investment bank which is rolled up into the investment banking numbers and the credit card business which is rolled into the Barclaycard numbers. Both those businesses perform very well. We've had some specific issues in our mortgage portfolio which we referred to earlier, but in a local currency basis costs are down, income is broadly in line, but that impairment issue has affected profitability.

So if I think about the more short term revenue driven perspective, I continue to see opportunities for us there, and those opportunities are driven by our ability to connect our local on the ground presence with our global product capability with our relationships with multinationals, either in the UK or the US and in Asia and also, of course, with large regional players. And when we put together the customers and clients that we have with our local presence, with our global product capability that leads to good things happening. We've proved that hypothesis out in investment banking and cards and we're proceeding to do it across the continent.

I continue to be optimistic on Africa, while recognising that we'll have to deal with volatility in the short term.

Chris Manners:

Thank you very much.

Question 4

J P Crutchley, UBS

Morning all, two questions, if I can, maybe a technical one on capital for Chris and a broader business one for Antony. Chris, the capital one was just looking at the pro forma Basel 3 numbers you give in the appendix, and this has been a bit of a shift downwards since the half year and it seems to be the main difference is in the other transitional deductions between 2014 and 2018 which have gone up by a couple of billion. I just wonder if you can maybe just explain what the movement behind that is.

Further Question

Then the second question on broader business was just on the European region and business banking for Antony. I guess when I look at that business the thing that strikes me is actually it's less of an issue for that business in terms of impairments, but actually it's more of a revenue as to cost problem in that business in terms of how it's more broadly performing. I mean, as you start to think about that one, do you think more about leaning on income levers or cost levers in terms of getting that business back to what would be considered an acceptable level of return?

Answer: Chris Lucas

Let me answer the first question and the change, you're absolutely right, is what's happened since the half year is due to a reassessment of the PBA and DVA calculations.

Answer: Antony Jenkins

Let me talk about Europe RBB, we've taken a deliberate decision in Europe to minimise asset growth for all the regions that you'd expect. Firstly, because of the weakness of the operating environment, but also because of our desire to manage the redenomination risk. I think we've done a very good job in cutting costs; you can see that costs were down 31% year-on-year, but unfortunately a combination of, you know, lack of asset growth has impacted the top line and, of course, impairment has deteriorated somewhat.

So, from my point of view, our strategy in Europe is all about risk mitigation; mitigation of both redenomination risk and credit risk, which I think is appropriately prudent. In terms of the go forward strategy for Europe, that of course is part of the business portfolio review that I referenced earlier. We are operating that review at a very detailed level; we're looking at about 80 different lines of business through the lens of both reputation and return and our expectation is that, as a result of that review, we'll be able to talk to you in February about what we're doing with each of those units.

It would be inappropriate of me at this time to be more specific than that, but I do think that the operating environment in Europe will continue to be difficult for the foreseeable future.

JP Crutchley

Thank you.

Question 5

Michael Helsby, Bank of America Merrill Lynch

Morning, I've got three questions actually, if that's all right. Firstly, on costs, Chris I think that the non-performance costs were 3.8 billion in the third quarter, so if I annualise that I'm at 15.2 billion which is a little bit lower than your 15.5 billion. So I was just wondering is the 15.5 more of a 15.2.

Further Question

And also, maybe, if you could just talk about what else you could do in terms of non-performance costs in terms of the out years. Also, clearly, within the investment bank the comp ratio has fallen a lot, but I was just wondering if you could talk about how you see the evolution of that 39% comp ratio, given the structural changes that seem to be happening at an industry level in terms of costs. That's question one.

Antony Jenkins

I thought that was two questions, Michael.

Michael Helsby

Yes, it was two, but do you want to answer those, that would be great, thank you.

Answer: Chris Lucas

Let me start, the 15.5 is not the 15.2. The 15.5 was the basis upon which we were able to drive the P&L cost line to operationalise the £2 billion target savings that we gave you. That translates to 15.5. If you do the straight annualisation, I agree you get to 15.2 and the other information we have like what's in our plan gets us to nearer to 15.5 than 15.2. There's a little bit of a finance director's help in their as well, but you should look at 15.5 as the non-performance cost target that we have set ourselves and that's what we intend to deliver against next year.

Michael Helsby

Okay, thank you.

Answer: Antony Jenkins

Michael, if I could just make a strategic comment on cost. In my interactions with investors and with many of the sell-side analysts I've been talking a lot about how I see costs as being the strategic battleground for the industry for the coming years. Of course, the case, where if you share my view of the world which is that we're in a period of prolonged low to no economic growth, and therefore very little tailwind around the top line of the business, then you have to focus intensely on cost. I do think there is a strategic opportunity and the potential to build competitive advantage through a much more structural approach to cost. That, again, is something that we'll be covering in February.

Regarding the investment bank compensation ratio, we are acutely aware that this is a topic of intense interest for our investors and for others. Our aspiration is to be top quartile in this area of our business, but also to do that in a way that protects the franchise, because clearly we have a very powerful investment banking franchise as part of our universal banking model. And we are on a path to continue to drive this ratio down, but always with an eye to being competitive. We believe that we are in the top quartile with this ratio, but we expect to continue to reduce it over time.

Further Question

Okay, thank you. Question two is just a very quick question on, I think you mentioned equities actually looked quite good Q on Q, certainly that was a lot better than what I would have thought. I was just wondering if you could give us a bit more colour in what drove that; is it cash, derivatives, PB?

Answer: Antony Jenkins

It was a pretty solid performance, Michael across all geographies where we do business.

Michael Helsby

But from a product level was it just a broad base in terms of what drove the improvement or was there a big change in PB or derivatives?

Answer: Antony Jenkins

I think it was pretty much across all of the product categories.

Further Question

Okay, fair enough. Then just finally, clearly there is a hell of a lot of focus on capital and we've had quite a few questions on that today. I think you've said that you're happy; I think you've implied that the regulator is happy with your capital plan. And I was just wondering, I mean, you're still paying a dividend and should we take that as an endorsement, a direct endorsement from the regulator and from yourselves that you're happy with the capital plan; is that a reasonable litmus test?

Answer: Antony Jenkins

Yes, Michael let me just make one clarification on the equities question you asked. It was primarily driven by PB and equities derivatives. To come back on your point on capital, of course, capital is a topic of intense discussion between us and our regulators. We talk to them about our approach to dividends on an ongoing basis. Chris, I don't know if you want to add anything.

Answer: Chris Lucas

I think that's very fair; to say that it's a direct endorsement by the regulators is probably something you have to talk to them about. But we have a deep and transparent relationship with them; they've seen all of our capital plans, they've seen our dividend plan, and the fact that we are paying dividends, I think, is an endorsement of our view.

Michael Helsby

Good, thank you.

Question 6

Raul Sinha, JP Morgan

Good morning everybody. If I can have two questions, please, the first one just following up on the, sort of, recent discussion on capital, if I may. I'm just trying to understand your updated view on contingent capital, given the comments you've made about being adequately capitalised. How would you decide the size of any potential issuance going forward; what might be the criteria there? And have you given any thought to what it might cost you?

Answer: Chris Lucas

We've done a lot of work with the market over a year ago in terms of the type of capital, what would contingent capital look like, what would the coupon be, what would the maturity be, and that fed into a lengthy series of conservations with the FSA. Those have now pretty much completed and we're in the position to go back to the market and refresh the work we did over a year ago with them. I think we really need to do that before coming out with anything more definitive, but we do believe that contingent capital is important. It enables us to bridge the gap between ordinary share capital for Core Tier 1 and Tier 2, and therefore, it's an instrument that has been and remains of attraction to us. The objective will be to see whether we can issue it, but that will, we have a lot of work to do before getting to that point.

Raul Sinha

So should I think about this as dependent upon the demand within the market rather than any particular size that you do feel you need to issue?

Answer: Chris Lucas

I think it tends to be both. We have a long term capital plan that goes down below Core Tier 1, goes down to Tier 2, and within that is a number for Co-Cos that of course, was previously opened up by reserve capital instruments in Tier 1 notes. So we're looking at the capital structure not just in a year forward, but five and ten years and this is we think a very useful addition to the armoury.

Further Question

Right, thanks Chris. If I can have a question for Antony on redress, Antony, could you comment a bit on interest only mortgages? I believe you made some comments previously in the press, and I wonder if you might be able to share your updated thoughts on this issue, and then secondly on PPI if you could talk about, you know, how you derive comfort from the provision you've made so far.

Answer: Antony Jenkins

Yes, sure, so one of the things that we've been doing over the last couple of years is to look proactively at upcoming areas of our business which might cause concern to our broader stakeholders, and because interest only mortgages became prominent as a product about 15 to 20 years ago you're now seeing the maturation of those mortgages. So we've been doing a lot of work, and have been talking to our regulators about that work to make sure the customers understand their obligation to repay the principle at the end of the loan, and we've also been doing a lot of work to deal with customers who are facing any sort of hardship because their plans didn't turn out to be the way they thought they were going to be, and we think that we are leading the industry in this regard.

Now, it's true to say that we're seeing the leading edge of this because these mortgages are just starting to mature, but right now, I feel that we are dealing with this product in exactly the right way in a way that's consistent with our approach to put the customers at the heart of everything that we do, and to build the go-to bank going forward, but I also expect that this will become an increasingly focussed upon topic at the industry level over the coming years as the numbers of these mortgages begin to mature.

The one thing I would say about our mortgage book, and it will be well known to many people on this call, is that it is inherently a lower risk mortgage book than many of our competitors, and if I look at the distribution of interest only mortgages a very significant proportion of them have low loan to values, and our target is at what we would describe as mass affluent customers. So we think that the product targeting is appropriate for these customers and so we expect to be able to deal with this issue going forward, but I do also expect it to be, become increasing a topic of media coverage.

With regard to PPI, PPI is very difficult to forecast as it's based upon our volumes that we're experiencing, have experienced our anticipated future volumes, the types of volumes that we receive, how we adjudicate those and so on. At the half year volumes were trending down so we felt that we were adequately provided, but based upon third quarter experience we think that it's appropriate to take additional provision, and as you would imagine we've incorporated in the calculation of that provision all the available data that we have to date and operated inside the accounting convention. So this is our best view right now of the requirements for PPI redress. It's also worth stating that more than half the claims that we've received have no PPI policies or are duplicates. So that is our best view right now, Raul.

Raul Sinha

Thanks, Antony. Would you be able to share what proportion of your mortgage book is interest only?

Answer: Antony Jenkins

Yes, it's about 44%.

Raul Sinha

Right, thanks very much.

Antony Jenkins

Thank you.

Question 7

Andrew Coombs, Citigroup

Good morning, I have two questions on the fixed income result please and wider strategy there, and then also a follow up on capital, perhaps, if I start with the fixed income question. I know that you mentioned about outperforming during weaker quarters and underperforming on stronger quarter related to the wider peer group, but I'm just interested to know how much the Maiden Lane gains in the second quarter and the absence of those this quarter accounted, how much of that accounted for the 20% decline Q on Q, and therefore, whether we should think of the third quarter as a better base for fixed income revenues?

Further Question

And my second question is with regards to FICC, following the UBS announcement yesterday what do you take as the read across from that? Is it first and foremost do you see that as an opportunity for market share gains or is it that you see steps to follow reviewing business and concerning running down areas and exiting some?

Antony Jenkins

And your third question on capital.

Further Question

The third question on capital is you mentioned that you'd submitted an absolute capital target to the FSA earlier this year and that they were now, they'd essentially said we'd like you to meet that target. You said you were confident you could achieve that, but you yourself also mentioned that the PPI there's a lot of uncertainty there and it's very hard to forecast. So given that I'm just interested to know how much flexibility there is in the ongoing discussions you have with the FSA around that hard and fast absolute capital level.

Answer: Antony Jenkins

Well, I'll ask Chris to deal with the capital question I'll address your first two questions. With regard to Maiden Lane gain we did not disclose the amount but it's not material, I wouldn't infer anything into that in terms of distorting the overall trend of the numbers. I think the key issue is the one that I referred to which is the strategic positioning of the business, and I think it is appropriate that we're conservative from a credit perspective. That is our approach to our businesses across the group and it's one that I thoroughly endorse.

Regarding your reference to UBS I think it is, of course, to our benefit that a player is leaving the FICC space. We are as, you know, a huge player in the FIC flow businesses and I would expect that to be helpful to us over time. Regarding our own strategic approach I described in my remarks, the business portfolio review we're conducting as part of the TRANSFORM programme which is set to determine the future size and shape of the group, I would emphasise that I expect that review will allow us to determine the lines of business, as I said before, where we will continue to grow businesses, where we need to reshape businesses, where we need to run down or exit, but that will be in the context of us continuing to be a universal bank and continuing to have a very strong investment bank within it.

Chris, do you want to talk about the capital issue?

Answer: Chris Lucas

Andrew, yes, the absolute capital level was a number that was our number out of our medium term plan. We expect to continue to have a dialogue as to that number with the FSA, and will be talking to them about changes for things like exchange rates that you would expect to go through. There's clearly a degree of uncertainty and PPI is one of those areas, but our capital plan and our business plan are the bases for the overall absolute capital level and will vary as the year goes by.

Antony Jenkins

Thanks, Chris.

Andrew Coombs

Thanks very much.

Chris Lucas

Thanks, Andrew.

Question 8

Fiona Swaffield, RBC

Hi, good morning, it's just a follow up really on the leverage ratio debate just two things. I mean, firstly, could you kind of give any indication or have you looked at the extent to which the adjusted assets you give and have done for a long time on leverage would be dramatically different? I mean I assume they'd be inflated quite significantly under the Basel 3 numbers, I don't know if you've looked at that.

And secondly, if there is a leverage target that's put in place or something comes out from the FSA have you looked at your ability to reduce kind of low yielding assets, is there any kind of scope there to reduce repo or do anything quite quickly. Thank you.

Answer: Chris Lucas

We give you the adjusted gross leverage of 20 times being the number that we work to, I think we also tell you that under Basel it's about [under the] 33 times leverage [limit], that number is going to come down. In terms of where do we get to with the FSA I think to be honest it's premature to go much beyond the fact that we are in dialogue, we have a very transparent view of our leverage on our basis, and what it would be on a Basel 3 basis, and we will continue the dialogue, but it feels some way away from completion at the moment.

Fiona Swaffield

Can I just follow up on the 33 times, is that with a higher asset base or is that Basel 3 tangible equity?

Answer: Chris Lucas

It's Basel 3 tangible equity.

Fiona Swaffield

And what about assets would they be?

Answer: Chris Lucas

Tier 1, Fiona.

Fiona Swaffield

But would the assets be including current exposure methods and off balance sheet?

Answer: Chris Lucas

Yes, although some of those calculations are by necessity relatively high level because there's still a considerable dialogue going on in relation to what the inclusion of different assets are in the calculation of the 33 times Basel 3 [limit] calculation.

Antony Jenkins

Thanks, Fiona.

Fiona Swaffield

Thank you.

Question 9

Manus Costello, Autonomous

Good morning everyone, I just wanted to follow up on JPs question, please, on the capital deductions, because it was a quite material increase in capital deduction as you say, Chris, driven by the PVA deduction, I wonder if you could give us more clarity around that because it certainly seems that some kind of change here is eking into a lot of your organic capital generation, and thinking about the capital plan going forwards it's somewhat worrying that you're generating capital on the one side, but it's being removed by increases and deductions on the other side.

Answer: Chris Lucas

The work is ongoing, it is expected that there will be changes in terms of the calculation and the input into the calculation. There is quite a lot of work going on as we finalise these, and clearly we're looking at the capital generation on one side relative to the changes in interpretations and rules on the other. I think the PVA, DVA numbers are conservative, and they are numbers that we will be working on in terms of refining and optimising over the next year to two years, and I think it's hard to go on what I've said and where we've provided guidance in this area.

Question 10

Jon Kirk, Redburn

Good morning, just a couple of questions actually, the first, both relating to capital, the first is on contingents. I'm just interested if you could perhaps help us here, if you decide to or are able to raise contingent convertible capital, will you be retiring some other form of capital in your capital stack to offset the costs of that? Is that part of your, is that assumed within your plans, first question.

Answer: Chris Lucas

That's one of the attractions of contingent convertibles, yes.

Jon Kirk

So we should be expecting a 10%, for example, coupon on contingent capital to be borne wholly i.e. there'll be netting off from that from retiring of other capital.

Answer: Chris Lucas

I should say that the 10% is your number, not mine.

Further Question

Yes, okay, sorry. The second is a bigger picture just relating to Basel and it's just comments you've literally just been making about, you know, the amount of time that it's taking for the Basel regime to be finalised both by regulators, and then I guess also by the banks themselves. You know, it's called optimisation, but in reality I guess it's a process of trying to get to grips with what the new regulations are and how best you can employ them. And you're saying it's going to be another year or two, and I guess when you tie that together with some of the work that's been done by regulators, and also by some of my peers on the sell side looking at the risk waiting process and kind of exposing some of the issues of the risk waiting process as a whole. Do you think there is any chance that the Basel regime is thrown out entirely, or is significantly simplified over coming years? Because it strikes me that it's lost credibility, and actually, the complexity seems to get worse and worse with every, with every year passed.

Answer: Chris Lucas

I would say that the Basel 3 calculations are difficult and complex and, in some respects, have given answers that were counter-intuitive and, therefore, you'd have to go back round the route again, to recalculate and see what extent the numbers made sense. I expect, and we're certainly positioning ourselves to implement Basel 3, recognising that there is some work that's started to see how and whether the whole process could be simplified. You know, feels like it's going to take a number of years and our objective is to get to grips with the existing Basel 3 requirements, which, in themselves, are taking up a lot of time.

Jon Kirk

Okay, well, I mean, you know, just… sorry to follow up, but the stuff in the press recently about the Bank of England, which sounds almost like they've given up on Basel 3, to a degree, and are just looking at an absolute pounds billion capital requirement for the UK banks. Do you think that will become the lead form of regulation for you, rather than a Basel 3 ratio, as such?

Answer: Chris Lucas

I think it's too early to determine; we're working on the basis of all the requirements that are in front of us.

Jon Kirk

Okay, thanks.

Question 11

Ed Firth, Macquarie

Hey, good morning all. I just had a quick question. The regulator was making comments earlier this month, expressing concerns about – well, highlighting concerns about – balance sheet evaluations across the UK banking sector. And, I guess, my question is, have you had discussions with the regulator, in respect of your own balance sheet? Are there particular areas they're focusing on? And is this something you're going to be looking at, I guess, in your strategic review in February?

Answer: Antony Jenkins

Yes, well, there were a few comments made about that, but, I think, if you look at them closely, they were made about banks in general, particularly across Europe; not specifically to do with the UK. As you would imagine, the nature of the assets on the balance sheet is the topic of constant discussion between us and the regulators, but you'll note that we continue to reduce our credit market exposures down, now, to around 10 billion and we've exited those positions at, or above the marks that we have, so, we feel comfortable with where we are and I wouldn't infer anything from those remarks.

Ed Firth

But were there, were there any areas of particular concern that, you know, they're focusing on? Is it the commercial real estate type lending? Is it level three assets? Is it pension deficits?

Answer: Antony Jenkins

To be, to be perfectly fair – I'm not trying to dodge the question – you would have to ask them, not us; I can only talk for the position of the Barclays Group.

Ed Firth

Sure. Okay. Thanks very much.

Antony Jenkins

Thank you.

Question 12

Chintan Joshi, Nomura

Hi, good morning. My first question is for Anthony. We've had a pretty substantial improvement on funding costs and if I think about mortgage rates that are being offered on the front book, Bank of England data on Monday suggested they were dropping. I just wonder if this will continue dropping and, therefore, pull the mortgage rates even on the back book down. I'm just wondering about that dynamic. What are your thoughts on that?

Answer: Antony Jenkins

I don't think that there's going… that the mortgage market on the front book is going to have a material effect on the back book. I think you are beginning to see some of the impacts on the funding for lending scheme on some of our competitors who have less access to funding or access to more expensive funding than we do.

Further Question

Okay. Second question was on liquidity buffers. I'm just wondering how to think about them going forward into 2013; how much of that you can reduce. And also if I could think… if you could share some thoughts on how much of the liquidity buffer is for BarCap? How much is for the traditional RNC businesses, so that we can think about how it can evolve over time?

Answer: Chris Lucas

I would, I would just look at the overall liquidity buffer, rather than trying to allocate it to different parts of the business. That's more of an art than a science, and I would just look at it in totality. Do we have set deadlines or requirements for how much we reduce it? No. The critical point is the one that I made, which is that it has to be a store of liquidity rather than a pool that we run for its return. And we will continue to do that and look at the mix of assets within it, but that is an ongoing piece of work that we'll tell you about as and when it's done.

Chintan Joshi

If I can just follow up on that; I mean, the FSA has relaxed liquidity requirements and, I guess, I'm struggling to think about how much lower can you go on liquidity buffers on the back of that. Is there something you could guide us to think about the numbers there, in terms of how much we can reduce?

Answer: Chris Lucas

Well, the – interestingly – the primary constraint is our own liquidity risk appetite numbers, which are fighting before the FSA's requirements and there is some room for downward manoeuvre, but I wouldn't regard it as particularly massive.

Further Question

Okay, and the next question was on, could you tell us how worried we should be regarding these two new investigations that you've disclosed on the last page of your release?

Answer: Antony Jenkins

Well, as you would understand Chintan, we have disclosed what we can say at this time; both are the subject of ongoing investigation. You should not assume that either of them will imply any wrongdoing on behalf of the Barclays Group.

Further Question

Okay, finally, Anthony, if I can try my luck with one more, how…? I mean, you've had a good detailed look through your businesses. In particular, at BarCap, could you give us a sense of how much of the business is in the grey area, where you need to take some action, and how much is in the clear, where you certainly think this is core and will grow?

Answer: Antony Jenkins

Well, Chintan, I certainly respect you asking the question, but, as you'd imagine, we're deep in that work at the moment and that's what we'll be sharing with you in February, so I'm not going to front-run that discussion; I'm afraid you'll have to wait until February.

Chintan Joshi

Thank you.

Antony Jenkins

Thank you. Well, I think that concludes the session. I thank everybody for their participation and their questions and obviously, if you have follow-ups, please do contact the Investor Relations team. Thanks, everybody.