

30 July 2014

**Barclays PLC****2014 Interim Results****Analyst Transcript Q&A (amended in places to improve readability only)****Raul Sinha, JP Morgan**

Morning, Antony, morning, Tushar maybe I'll start with the IB first and then on Non-Core. Obviously this quarter was supposed to be the one where you had the brunt of the restructuring and dislocation impact within the IB and yet your numbers seem to look like they're probably in-line with peers. Can you comment a little bit on the underlying strength of the franchise especially after the quarter because you might have seen some dislocation? There were some worries, especially your franchise in the US, might have seen some dislocation so that would be question one. And within that if you can talk about July that would be great.

And the second one is on Non-Core, obviously you've released, it looks like £1.5bn of capital in the first half. Can you talk a little bit more of the type of assets that are gone? Are these mainly good assets and if so should we start to expect less capital release going forward?

**Antony Jenkins, Group Chief Executive**

Thanks, Raul, I'll take the first part of your question. I'll ask Tushar to comment on July's performance in the IB and also talk about Non-Core. Let me just talk about the work that we're doing. Obviously we knew the direction of travel for the Investment Bank before we announced it on May 8<sup>th</sup> and so we were organising around this to focus on the Advisory business going forward. And we're very happy to see the performance of that business. As we said in the speeches: number five for advisory in the US; number two in the UK; very strong performance in DCM and ECM and the Equities business doing well.

So actually I think the underlying performance of the business is consistent with the strategy and that's pleasing. In terms of impact on the performance towards the end of the quarter, it is true to say that in our dark pool business we saw a diminution of activity there, not surprising given the allegations that

were made against us. But in our broader business we haven't really seen any impact beyond that. With regard to July performance in the IB, Tushar do you want to cover that?

**Tushar Morzaria, Group Finance Director**

Yes sure, hi Raul. As Antony pointed out, I think many of us here experienced a pretty decent June after a weaker start in the quarter, that was typical of our profile. We have seen a weaker July and it remains to be seen when we finally close the books on July, but it could be the weakest month that we've seen this year. Again, that's just a matter in time; we don't know how the rest of the quarter will turn out, but at least for us, July has been weaker than we posted second quarter.

You also had a question on Non-Core and the capital reduction and what do we do and where do we go from here? A big chunk of the reduction that you saw in the first half was from the old PAB book that we designated as 'exit quadrant', really mostly around RMBS securities and leveraged loans and some of the rest was the rundown of trading assets. I would say that market conditions were favourable and we took advantage of that, so think of this as perhaps bringing forward the reductions that we'd anticipated doing over the course of this year.

That's why I think approximately £80bn of RWAs by the end of the year is still reasonable guidance and we'll see how the rest of the year turns out. Obviously we're also pleased with leverage reduction. In terms of capital release, I think we'll stick with the guidance that we've given already and we're still very focused on achieving our leverage and RWA objectives.

**Raul Sinha**

Thanks very much.

**Michael Helsby, Bank of America Merrill Lynch**

Morning gents. You gave two comments on your full year guidance, one on costs and one on bad debt. On costs, I mean, Q1 was good, actually if you strip out the conduct your costs improved again in Q2. Even if we annualise that and add in the levy we're getting to around £16.5bn for the full year and obviously you're guiding to £17bn. Does that £17bn include that conduct cost? And outside of that, given the IB costs seasonality is obviously normally lower in the second half and you've got Non-Core run-off, are you flagging that there's a step-up in non-IB costs that we should be focused on? That's the first question.

And on the bad debt side, again I think you said you've seen full year consensus and you're happy with that. That would suggest a bad debt charge of £1.5bn in the second half of the year from £1.1bn in the first half. It's not obvious to me where that would be coming from unless there were big recoveries that

you've not necessarily pulled out in the first half; is that the answer or are you just being cautious at this stage?

**Tushar Morzaria**

Thanks, Michael I'll take both of your questions. I think on costs, the guidance around £17bn still holds and you're right that that does include items for litigation and conduct as well as the bank levy. In terms of where we go from here, obviously you can see where our opex is trending and that will be very transparent to you. Conduct and litigation is a little bit harder to predict, it's a bit more episodic and a bit more situational. And I'll just call out, the couple of points I made in my scripted remarks which is, approximately £17bn is about the right number to be thinking about assuming we don't get a large move in foreign exchange rates, and that could cut both ways obviously, and also if we don't get a large unanticipated conduct or litigation item that we haven't predicted.

On your second question around impairment, I'll just be really clear there. So when I looked at the models that we received on full year impairment and I use what you had for the first half and therefore backed out what everybody had for the second half, that number felt about right. I think that in my mind implied somewhere around £1.4bn for the second half and that I think that's a reasonable number. There's a bunch of things that could change obviously in the course of the second half but that's based on the information that we have today. There are a few reasons for that, Michael. There are some seasonal factors, for example, our corporate bank. It's quite typical for the corporate bank impairment charges because of seasonal matters to be higher in the second half than in the first half. There were some one time recoveries we did experience that we would expect not to reoccur in the second half, so that will have a comparative impact. And then thirdly, we do tend to update our impairment models for recalibration and that typically results in, as we try to be reasonably conservative with our models, typically results in an increase in impairment. But I think with all of those factors in mind, implied consensus for the second half, sort of, feels in the right area to me and again that's just based on what we know now.

**Michael Helsby**

Thanks, can you just quantify the one time recoveries for me, please Tushar?

**Tushar Morzaria**

We haven't called that out, Michael so I'm not sure there's anything individually I'd want to call out but there is some stuff in there that will just make a comparative look a little bit off. We can maybe speak to you afterwards if you want a little bit more on that.

**Michael Helsby**

Yes thank you.

**Antony Jenkins**

And Michael you'll notice that we've guided to £16.3bn for costs in 2015 so we're confident that we're on that step down track inside the context of what Tushar's described. Next question please.

**Chris Manners, Morgan Stanley**

Good morning, gentlemen, two questions if I may. The first one was capital and dividend policy and just how you were thinking about the upcoming stress test from the Bank of England, the leverage ratio consultation. Are you still happy with your 4% leverage ratio target and how do you think about the dividends on that? And the second one was about the net interest margin; the net interest margin looked like it slipped 6 or 7 basis points quarter-on-quarter and obviously was up nicely year-on-year, I'm just trying to work out where we should expect that to trend and what's caused it, because it did seem to be across the board that each of your major NII earning divisions did go down.

**Antony Jenkins**

Thanks, Chris, let me take the first and Tushar will take the second. We remain committed to the dividend policy that we've had, 40-50%. We are pleased with the way that we've been able to accrete capital in the half. We note the PRA consultation on leverage. When we made our commitments through to 2016 you will see that we made commitments that were greater than 11% on CET1 and greater than 4% on leverage; we feel very comfortable that the plan that we've built and the extra capacity of the organisation to deliver on what we expect will happen on leverage, and we hope that over time we'll be able to continue to make progress on the dividend as well. We would like to increase the dividend at some point.

We believe that the plan we've got here is going to deliver enough capacity to meet the scenarios that we can conceive of at this point.

**Chris Manners**

Considering they might disallow AT1 in the numerator and that the baseline may step up, do you think that's okay with the 4% or do you think you'll be raising that 4% target?

**Antony Jenkins**

The target is greater than 4% and of course without seeing the outcome of the consultation we can't be specific as to what we'll actually have to achieve. But as you would imagine we've modelled several

scenarios based on equity and based on equity and AT1, and in all those scenarios we're comfortable that we should be able to achieve the requirements that we expect to come.

**Chris Manners**

Thank you.

**Tushar Morzaria**

If I just cover the NIM question briefly, Chris. You're right to say that the NIM was tighter quarter-on-quarter although expanded over the period of the full half. There are a few things going there. There were some promotional offers within our cards business, that's probably the most significant of the reductions in NIM that you see. There are actually two components in there. Our US business as it continues to expand has a slightly tighter NIM than our UK business so you see that in some of the promotional offers that we've put out there.

By and large, the factors that we've had in the past with our structural hedges rolling down, which has been very good in protecting our NIM, but that's flattened out now so I don't think you'll see continued reduction of NIM as a result of structural hedges rolling off; they're almost flattening out there. And it's pleasing to see that our volume growth continues and that more than offsets any NIM pressures that we are seeing.

**Chris Manners**

Should we expect the NIM to continue to fall or would the 403bps for the quarter be a fair enough run-rate?

**Tushar Morzaria**

I think it's a reasonable run-rate. I mean, it will level off a little bit along with promotional offers but I don't expect it to have significant fall from here.

**Chris Manners**

Thank you very much.

**Joseph Dickerson, Jefferies**

Hi, good morning guys, two questions. Could you update us around any discussions that you're having on the sale of the Spanish business or other European businesses? There are some comments out of Popular this morning saying that they're looking at your Spanish business. Any colour there around

appetite for sale would be helpful to me. And then the second question is on Barclaycard, if I compare the 10% balance growth year-on-year with the 5% revenue growth, clearly there's some FX impact in that but it looks like the gap is driven by falling fee and commission income. Is that mostly macro-related, so as an improving economy drives lower penalty charges or is there something else going on there? If you could provide some colour around that I would be grateful.

**Antony Jenkins**

As you will understand we don't comment on ongoing or lack of ongoing discussions to do with any part of the sale or purchase of businesses within the Group, so I can't really give you any more colour on what's happening with Spain or with continental Europe businesses. I will say that as we said on May 8<sup>th</sup>, we have taken the decision to exit these businesses but we're going to do those in a prudent and controlled way over time and make sure that we have regard to maximising the interests of our shareholders. But as and when we have something specific to say either on Spain or other European businesses we'll certainly communicate that to the market.

**Tushar Morzaria**

Your question on Barclaycard, you're right to point out the 10% growth in balances which has been very pleasing. The 5% increase in income as you point out was impacted by FX, typically in the US as that business continues to grow at a nice pace but you do get a head wind there. The other effect that you see there is of course, as we grow balances you do have promotional offers and that's been a very successful approach for us in how we can gather assets and then convert that asset stream into income. Those promotional offers, the income is scheduled to come in after those assets originally come on board, whether they're zero balance transfers or promotional offers, so there's really that mixed thing on there as well.

**Joseph Dickerson**

Could you just comment specifically on the fee and commission income, what's driving that to be lower year-on-year?

**Tushar Morzaria**

It's the same effect really, so it depends on how many promotional offers that we run over the course of the year, so you'll have some sort of evidence flow depending on where the promotional offers are running relative to the previous comparison.

**Joseph Dickerson**

Thanks.

**Chintan Joshi, Nomura**

I just wanted to clarify on the £17bn, did you mean “include litigation” or “exclude” before I ask my question? I heard “include” but your May 8<sup>th</sup> slide said excludes litigation, CTA, etc...

**Tushar Morzaria**

Chintan, just to be very clear it includes litigation and conduct charges but I do want to point out that if we receive a large litigation amount as we get further on in the year, that we can't predict and don't anticipate, it's very difficult for us to absorb that and still maintain the target that we've set. It's just the same as if we get a large movement in foreign exchange. I'm just putting out there items that, you know, we can't always anticipate and can't control, but in principle it absolutely does include litigation and conduct charges.

**Chintan Joshi**

So I would say anything that anything material is excluded. It's the business as usual stuff that is included?

**Tushar Morzaria**

Yes that's a good way of putting it.

**Chintan Joshi**

My questions, first one on the NII, your hedge contribution this half is indicated at £800m versus just over a billion for the full year 2013. I'm just wondering how to think about your hedge contribution in NII, do you think it has bottomed out or do you think that number can still roll down of the coming half, in the next couple of year view? And the second question is on PPI, have you done any modelling on your pre-2005 claims and how does that modelling compare to the post-2005 claims? Is this going to be, you know, an item that continues to surprise, not only you but it's a broader issue, that it surprises us on the downside over the coming quarters?

**Antony Jenkins**

Chintan, I'll take your PPI question, Tushar will deal with your NII question. Clearly as we signalled in our Q1 IMS, we've seen an uptick in activity around claims pre-2005 and in fact pre-2001. This has been generated mostly by claims management companies and therefore we have taken a provision which reflects our best estimate of the impact of those claims. It is of course difficult to forecast

because we have a relatively limited basis that the claims tend to be older, in some cases they tend to be of higher value, but not always, than the post 2005 claims. So we're comfortable with the provision as is and you'll note that Barclays tends to take fewer but larger provisions than our competitors. But for now we're comfortable with the provision where it sits.

**Chintan Joshi**

Just an observation, I mean, not only Barclays but generally banks are providing 12/15 months of cover on a rolling basis and that number keeps, you know, constant, i.e., you keep providing on, so just trying to get, you know, some sensitivity and push you a little bit further on this. It sounds like from your comments that, you know, it's uncertain, i.e., it is still potentially going to be a tail that continues to wag.

**Antony Jenkins**

We've got between 13 and 14 months cover which is amongst the highest levels of cover that we've ever had so based on what we can see, this should cover it. But obviously if there's a big uptick in claims then we'd have to reflect that in a further provision. But for now we've provided what we need to.

**Chintan Joshi**

Thank you for that.

**Tushar Morzaria**

And on your question on the impact of structural hedges on NIM. So you'll see that this half compared to last half, it's roughly an equal contribution; roughly about the same. So what you're seeing is particularly that the product structural hedges have become flattened out. You know, it's going to depend on where interest rates go in terms of giving you guidance. If interest rates start backing up then you'll start to see that feed through as those hedges climb back up. If interest rates stay broadly where they are I think you would continue to see a relatively flat contribution.

**Chintan Joshi**

It's fair to say that equity hedge contribution has bottomed out and it now depends on how rates progress?

**Tushar Morzaria**

Yes that's right on both the equity and the product structural hedge.



**Chintan Joshi**

Thank you.

**Martin Leitgeb, Goldman Sachs**

Good morning, first on litigation is it correct to assume that FX is the biggest outstanding challenge for Barclays and in that context, could you help us to place it in terms of order of money to PPI charges? I think if I'm not mistaken total PPI charges so far they're roughly £4.85 billion, how would that compare to potential charges for FX? And has your estimate with regards to litigation charges changed in the light of the recent settlement over the last couple of weeks? And second, on Equity revenues and Equity business, have you seen any spill over effect from the dark pool, which I think was about towards the end of June? In particular, have you seen any challenge in other business lines there?

**Antony Jenkins**

I'll take both of those questions. On the second one there's been no spill over into our other businesses from the dark pool issue; that's the only place we've seen a diminution in volume. On your first question, as you'll imagine litigation around FX is very difficult to quantify because we're still conducting our investigation, as are a number of regulators around the world, so it's impossible to quantify at this point what, if any, financial impact there would be for Barclays. And indeed were we able to quantify that we would have taken a provision around it. Can we have the next question, please?

**Chris Wheeler, Mediobanca**

Good morning, a couple of questions obviously. The first one really is just I'm trying to make head or tail of the provision charge in the new private banking/personal banking and corporate business, because by merging those obviously you have put two very different portfolios together. And in terms of the declining provisions can you give me some clue as to how much of that is really down to the corporate business perhaps because of some fairly major claw backs there? Because it appears to me that if we just added the old personal banking, and I know you shouldn't do this, and the corporate banking, you had about £158m in the first quarter which takes you down to about £72m in the second. So can you just give some colour on the personal versus corporate, a bit more colour than you've already given?

And the second question, I'm a bit surprised it hasn't been asked already, I'm obviously a bit surprised you decided to drop the compensation ratio for the Investment Bank. Obviously it's a ratio that has been used regularly and I know it was very painful last time around, but could you give us a clue what that would like based on the results we had for the first half of this year? Thanks very much.

**Antony Jenkins**

I'll take the compensation ratio question, Tushar will take the provision question. As you know, we make an accrual in the course of the year. We don't make any decisions about compensation pay outs in the Investment Bank or in any other part of the Group until the end of the year. We have included a number for the Group and we don't intend to provide any further disclosure on that at this point. I will say, though, that our policy on compensation is that if profits are up there's the opportunity, but not necessarily the fact that it will happen, for compensation to go up and if profits go down, broadly speaking, compensation will go down. But at this point, Chris that's all we're prepared to say on Investment Bank compensation

**Chris Wheeler**

If I could have a follow up there; obviously when UBS made their changes to their business, which were somewhat more dramatic than yours, they really tried to give guidance based on the fact that of course, you know, advisory businesses tend to have higher compensation ratios. And I wondered whether at some stage, maybe towards the end of the year or at the yearend, whether you'll feel you can actually give us some better guidance on that area?

**Antony Jenkins**

Why don't we take that under consideration, I'll review it with my Investor Relations colleagues. Tushar, do you want to talk about the provision in PCB?

**Tushar Morzaria**

We're not calling out the difference in impairments between them, it's really our personal banking business and our corporate banking business and both really benefited from the favourable macro environment, benefits feeding through to both of those lines. There were some write-backs but nothing significant enough that we would individually call out. I did say to one of the earlier questions that there is some seasonal effect so you would expect, at least in the corporate component to that business unit, having a seasonal uptick and we will be updating our impairment models across both which will tend to lead to an increase. But in terms of any additional colour that you're looking for, there's no, sort of, significant items I think I'd call out to help you sift through that stuff.

**Chris Wheeler**

Will you give us some more granular data on the businesses within that unit at the end of the year or is that something that's now in the distant past, in terms of corporate, wealth and personal banking?

**Tushar Morzaria**

We haven't made any decisions around that, we'll continue to have a dialogue with everyone and let you know if we're going to talk in any more detail about that business, but no decisions as yet.

**Chris Wheeler**

Thank you very much gentlemen.

**Tom Rayner, Exane BNP Paribas**

Morning chaps, two questions please. First, just on the leverage ratio, just looking at the second quarter trend it looks like an increase of 0.1% from 3.3% to 3.4%. And on the BCBS basis and I've had to calculate the Q1 position but it looks like it fell from about £1,412bn to £1,353bn, so quite a big drop in the second quarter. I just wondered if Tushar could give a bit more colour around that and also maybe comment on how you may have to change your plan if the consultation paper does lead to a requirement to get the leverage ratio in excess of, say, 5%. That's my first question and I had a second one just on the dividend, if that's okay?

**Tushar Morzaria**

Do you want to give both questions, Tom?

**Tom Rayner**

On the dividend, Antony it might have been a throw away remark but you said you hoped to increase the dividend at some point. Clearly the consensus is looking for an increase in the dividend this year. I just wondered if you could update us on the basis, the earnings basis on which the 40-50% is calculated just to make sure that we know what the EPS in both the second quarter and first half actually were on the basis that you're looking at the dividend policy, that would be great.

**Tushar Morzaria**

I'll take the leverage one first and then I'll hand back to Antony to take the dividend. You're right, our leverage ratio, I guess both on the PRA measure and the BCBS measure has increased to 3.4%. Just as a point of clarity there, no-one's asked us the question of why we're not going to be talking about the PRA measure going forward and you may already know this so I apologise if you do. The PRA has asked all UK banks in the anticipation of the CRR adopting the BCBS proposals to switch to reporting the leverage ratio on that basis so that's what we'll talk about prospectively.

In terms of where do we go on leverage ratios from here, you know that we're already indicating before the FPC paper came out that we want to be greater than 4% in 2016 and I think that's something we will be able to do, and be substantially greater than 4%. In terms of if we needed to go to a higher level, whether it's 5%, whether it's 5% CET1, to be honest I'm not sure we'll know what the calibration is, perhaps until next year, but I can assure you that we are firmly committed to making sure that we're trying to be as pre-emptive as possible in dealing with regulation as best as we can anticipate. And really giving out the leverage ratio guidance of greater than 4% was somewhat in line with that; we had expectations that leverage requirements for UK banks may increase and that's why we're already repositioning ourselves for that.

I think we feel in a pretty confident position, that assuming if there were higher leverage ratios to be required in any reasonable timeframe that we should be able to accommodate that within our plans. And if there's a very rapid acceleration in timeframe, we may have to make some adjustments but that's not our base case.

#### **Antony Jenkins**

Tom, I'm not going to give you very much more specificity on our view around the dividend policy, but I will say this: we've set some very clear guidance for where we want to be in 2016 with greater than 11% CET1, and a greater than 4% leverage ratio, and I think we would have to feel confidently on the way to those numbers before we contemplated an increase the dividend. As you'll see, we have made good progress against those numbers and we're cautiously optimistic we'll continue to make good progress against those numbers, so I think I'm going to leave it at that for now.

#### **Tom Rayner**

Okay. Thanks very much.

#### **Andrew Coombs, Citigroup**

Good morning. Two follow-up questions from me, please. Firstly, Tushar, on the slowdown you've seen in July trading in the Investment Bank, perhaps you could elaborate there please, if that's across Equity, FICC or primary, or if it's only one particular business line? Also, how much of that would you attribute to just the usual summer seasonality there? My second question's on PPI. Looking at the assumptions that you're now utilising, I think the expected total claims has gone up by something like 300,000 to 1.45 million. Also, when I look at the response rate to proactive mailing, interestingly your historical experience has gone up from 26% to 28%, but your future assumption has gone down from 25% to 20%. So I guess the crux of the question is how much visibility do you have when making the assumptions on those PPI claims? Thank you.

## **Antony Jenkins**

Andrew, why don't I take both of them? So, the slowdown in July, it's really a general slowdown across the board. I'm not sure I'd call out any one particular product line over another line. It's through our Fixed Income, Equities and for that matter our Banking business, although obviously, as you can imagine, banking is not a week by week basis. Is it just a regular summer slowdown? It could be. It's hard to tell. You know, as I say, it's probably been the slowest month for us this year. It's maybe not unusual. It's not the first time July has been the slowest month in the year, but it's worth you guys being aware that certainly the back end of May and June were very good months for us, and July is a weaker month.

In terms of PPI and the modelling, there are a few things going on in there. So the sensitivities that you see; if you go back and look it up, sensitivities from previously when we've been increasing our PPI provision, our projections of how those claims progressed, how many we expected to come in and make redress against actually was reasonably well predicted. So that was good. Obviously this is a relatively new behaviour that we've been seeing since the back end of Q1 and into Q2. You know, obviously the provision that we've taken does include some proactive mailing relating to the 2005 and newer PPI policies sold, and that's really in conjunction with the Regulator to ensure we're covering all the cohorts, but it also does include more, if you like, customer inbound complaints. And it's really not so much customer, it's more CMC inbound claims from pre-2005 policies, and that's obviously quite new data, so we've made what we believe are conservative and appropriate projections, but, you know, we'll have to track that closely with the claims that are coming in month by month to see how that turns out.

## **Andrew Coombs**

Great, thank you. If I could, just one quick follow-up question, just one the subject of conduct and litigation? I've just seen on the wires that you've that you've extended the NPA agreement with the DOJ by a year, and perhaps you could just quickly elaborate on the reason for that and any implications? Thanks.

## **Antony Jenkins**

Yes, the LIBOR NPA expired on June 27<sup>th</sup>. With the respect to matters relating to FX only, we've agreed a one year extension with the Department of Justice. This is consistent with the fact that, as I said earlier, FX is the subject of a widely reported, ongoing, industry-wide investigation by the DOJ and other authorities. To be clear, the LIBOR NPA has not been extended to any other product or business, nor has the extension been suggested to imply that there has been any wrongdoing. It's simply a prudent measure on behalf of the DOJ in light of the FX investigation. So, to summarise once again, extended

only in relation to FX, no other product, part of the ongoing investigation, and a prudent request by the DOJ to which we acceded.

**Andrew Coombs**

Thank you.

**Manus Costello, Autonomous**

Good morning. On the leverage exposure, which you're now giving on the Basel basis, you talked in the past about there being a 20 basis point impact, which I guess is what we're seeing here, but you said that was before management actions. So I wondered, are there management actions which you've taken already, particularly around things like SFTs which are quite a big add-on, or should we expect some quite significant mitigation to come through in the quarters ahead just from that shift of definition of leverage exposure?

And my second question is a follow-on from Martin's about your litigation exposures. You've obviously got ever expanding pages dedicated to this in your releases, but one of the areas which you don't talk about much is the activities of your old structured capital markets business, which has been in the press a bit more in recent weeks, and which you have previously disclosed generated about £11bn of revenue for the Group between 2000 and 2011. So I wondered if you could comment, have you got any expectation that the activities of that division historically may give rise to future conduct or litigation claims that we should be concerned about?

**Antony Jenkins**

Manus, let me answer that question and Tushar will move onto the leverage question. The simple answer is no, we don't have any concerns about that because if we did we would include it in the disclosure, and if we could quantify them we'd take a provision. But the honest answer is no, we don't have any concerns about that business. As you know, we closed it down last year. We've exited very substantially any legacy positions from it and we will continue to run those off as they expire naturally, and we're not conducting in that type of business going forward.

**Tushar Morzaria**

Manus, on your leverage exposure question, your point's a good one. So, obviously, for secured financing transactions, the methodology changes fairly significantly for that. Have we taken any specific action in anticipating that change and managing it down? I mean, to a degree, yes. You've seen that we've reduced the repo book somewhat. I think over time, as we manage to that ratio as our

only ratio, you'll see us apply more direct management actions, if you like, to how those calculations work. So I'd say a little bit thus far, more to come.

#### **Manus Costello**

Okay, thanks. Just to follow up, sorry, on that SCM business. You took the decision, Antony, to close it because you felt it was inconsistent with the way you wanted Barclays to do business. As I say, the revenues generated from it were very substantial over that period. You must see that from the outside that there must be a concern that if you were seeing activity which you felt was inconsistent with Barclays' principles, that could give rise to future concerns and potential conduct charges?

#### **Antony Jenkins**

Yes, we understand that could be a logical inference, but let me just tell you why it is in fact not logical. As you know, these transactions involve relationships with tax authorities around the world. We disclosed those transactions to the tax authorities as and when they were conducted, so we do not believe that this gives us exposure to that type of business. The reason why we closed it down was because prospectively we did not believe that this was in-line with the principles we established around tax and around our values. So this is about doing the right business in the right way, and I think we took the right decision around that. But I want to reassure you, as we look at this now we cannot see any liability around this. As I said before, if we did, we'd include it in our disclosures.

#### **Manus Costello**

Understood, thank you.

#### **JP Crutchley, UBS**

Morning all, JP here. We've touched on quite a lot of things, so just maybe just two quick questions, if I can? The first is actually just back on the Investment Bank and just trying to think about, you know, where there has been debate, which is the sustainable revenue trend or income trend of a business. I mean, clearly it's a step down, but most of that step down was from Q1 and Q2 of last year and largely in the Macro business, which has actually been fairly consistent for the last four trading quarters or whatever. So now that you've been running the business in this format for a while now, £2bn or so of revenues a quarter, at least in the first half, and then stepping down a bit seasonality-wise in the second, does that feel a fairly consistent aspiration to be thinking about for this business? Or do you still perceive potential for there to be step shifts either way in terms of its revenue potential to veer to the upside or downside? I'm just interested in your views on that.

The second question was actually just a slightly rinky-dink question on capital and DTAs. I notice your DTA charge hasn't really shifted at all, I just wondered if you can just remind us where those DTAs sit in regard of and why they're not being used up even though the Group is obviously profitable? Thank you.

**Tushar Morzaria**

Why don't I take both of them, JP? So, the IB trend, I mean, it's a tough question if you're trying to get me to forecast IB revenues.

**JP Crutchley**

Not really forecast, but just what would you hope the business is now capable of in terms of your aspiration rather than a particular forecast for, you know, the next quarter or next year or whatever?

**Tushar Morzaria**

Yes. So let me perhaps dodge your question by saying we're hoping that the IB generates a 12% or greater ROE, and we're going to manage it on that basis. And I'm not trying to be cute there, it is early on in our transition. You know, we have a view of what we think the revenue sustainability is. No doubt, as you pointed out already, the seasonal effects, H1 is typically much stronger than H2. At least July, for us is giving us an indication of, you know, that's probably a likely outcome for us as well. But, you know, we're very focussed on making sure that we can manage the place for returns and, you know, we'll adjust both our capital and cost base as necessary to ensure we generate those returns. And that's how we're focused, rather than targeting a particular revenue number in mind.

In terms of DTAs. So, our DTAs are actually spread across both the US and the UK. It's actually quite a complicated situation. There's no easy answer here because it really depends on which particular entity the DTA is in and then also what type of DTA we're talking about, whether these are permanent losses or just timing differences. So there's probably not enough in the disclosures to really help you see through that, but you should see us over time, as we continue to generate profits, as a more of a general principal those DTAs run down. But on any quarter by quarter it's a much more complicated story, depending on the entity and the jurisdiction you're in.

**JP Crutchley**

Okay. Thank you. Maybe we can come back to at a later date? Thanks

**Tushar Morzaria**

Yes. Happy to do that in more detail when we get together.



**JP Crutchley**

Thank you.

**Fiona Swaffield, RBC**

Good morning, just two questions. On the Investment Bank at the attributable profit level, I just wondered if you could comment on the fact that the drag of minorities and tax seems to be much more significant this half and even in the second quarter, and how we should think about that for the full year, whether that's something permanent?

And the second question is just on the Group RWAs. At the strategy update you gave a number of aspiration of £400bn, and we're not that far off, and there seems to be some reduced RWAs within the Head Office division. I just wondered if can help us, whether you're intending to overshoot or undershoot, sorry, go below £400bn? Thank you.

**Antony Jenkins**

Let me take the Group RWA question and then Tushar can answer the IB AP level question. So, Fiona, we're basically not changing the guidance that we provided on May 8<sup>th</sup> at this point. Clearly Group RWAs are trending down. That is something which is helpful, as you will understand, in achieving our objectives around CET1 and the leverage ratio, so we're going to continue to work hard to drive down the RWAs in the Non-Core business, but we will selectively be investing back in certain aspects of the Core. And, so, there'll be a mix change within the Group level, but I wouldn't take this progress as being an indication that we intend to go significantly below £400bn in the risk weighted assets for the Group at this stage.

**Tushar Morzaria**

And, Fiona, on your question around attributable profit, really the item there is probably the tax line that's worth explaining in a little bit more detail. You'll appreciate that what we tend to do is estimate the effective tax rate for the year and flow that through each quarter, and we try and do that estimate for each of the divisions. Now, in the Investment Bank you get some interesting things that are important to take note of. So, firstly, there are some non-deductible items that have quite an important impact on your effective tax rate, particularly when profits are lower than you would like. So, the bank levy's the most obvious one, but even certain litigation and conduct items are non-deductible.

So, you know, imagine, just to quote you hypothetical numbers, imagine if you had 100 units of profits before tax and your marginal tax rate on that was, say, 30%. But imagine against that you had a bank

levy of 100 units, and that becomes a non-deductible item, you can see quite quickly that the effective tax rate that you'd apply once that item becomes non-deductible can start looking extremely high.

The other thing of course is the way that tax rate moderates itself is when profitability gets back to normal levels or indeed some of the non-deductible items become deductible. I think for us, obviously, the non-deductible items will stay non-deductible, but we'll get back to more appropriate levels of profitability. A good example of that will be CTA charges that we wouldn't be spending any money on and, obviously, our cost base reducing as well. So as our overall profitability levels improve you'll actually see the effective tax rate come down quite materially. But it's a sort of an unusual feature with these non-deductible items having a disproportionate effect when you have low profitability levels.

**Fiona Swaffield**

Thanks very much.

**Antony Jenkins**

Thank you Fiona. We've got time to take another couple of questions, so if we could move onto the next one, please?

**Jason Napier, Deutsche Bank**

Good morning. Just two very quick questions, if I may, and apologies if I missed this being covered earlier. First of all, in Core costs would it be possible for you to break out the conduct and litigation contributions just within the Core? And if I can be greedy, if you could do that by quarter just to give us a sense as to what the underlying picture was there?

And then the second question was: I wondered if whether you'd be able to share the contribution to Barclaycard revenues from European interchange fees? Just so we can get some sort of sense as to what the potential ceilings on those proposed may mean for that business in the, kind of, more distant future. Thank you.

**Antony Jenkins**

Yes. Jason, let me just take the interchange question because it's something that we've looked at very closely, its impact on cross-border and also domestic interchange. The bottom line is we're confident that we can absorb this within the business and continue to deliver the sort of returns and growth that we've seen in the business in recent years. And in some ways we think it may create opportunities for us, but it's a rather longer conversation to have, so perhaps we could take that one offline. On Core cost, Tushar, do you want to do that one?

**Tushar Morzaria**

Yes. So, Jason, forgive me if I didn't get your question right, but we've split out Core costs between operating opex, litigation and conduct, and CTA in the results announcement on page four between Core and Non-Core. I think you may have been asking, can we have that by quarter?

**Jason Napier**

Yes.

**Tushar Morzaria**

And you might have been getting super greedy and asked for that by division by quarter? I'm not sure.

**Jason Napier**

No, just by quarter for Core would be helpful just to give a sense what the underlying's doing.

**Tushar Morzaria**

Yes. We didn't include that as part of the restatement, so we haven't disclosed that, and I haven't brought that schedule with me. You know, we'll perhaps think about that, but at this stage we haven't disclosed that.

**Jason Napier**

All right, thanks.

**Fahed Kunwar, Redburn**

Morning. I just had one quite quick question, actually. I'm just looking at the Investment Banking revenues, and if you strip out the Lending line your IB revenues, I think, are actually only down 5% year on year. I just wanted to understand, the Lending lines seem to be kind of, about half and, if you look at the footnote, it refers to risk management. Is that where the structural hedge is now sitting? So when thinking about that £66m in Lending, when you say it's bottomed out, what kind of number do you expect that to be at going forward, or is there some other business in there that I'm not thinking about?

**Tushar Morzaria**

Yes, right; it's Tushar, let me take that. No, it's not the structural hedge. What happens there, it's our Lending business, literally our loans that we've made to our corporate client base, and we have to accrual account those loans, but quite often we put on credit default swap exposures against those

loans. And those credit default swap exposures need to be marked to market. So you're getting a sort of asynchronous accrual accounted underlying a mark to market hedge, and as spreads have tightened those hedges have, on a marked to market basis, lost money. Spreads were wider this time last year. So you just see the contribution from that Lending line decrease, and that's really what it is, nothing more than that. No, it's not, sort of, equity structural hedging or NII hedging of any sorts.

**Fahed Kunwar**

So it's risk management business you're writing for others rather than risk management for yourselves?

**Tushar Morzaria**

Well, just imagine if I made a loan to corporate XYZ and I felt I wanted to hedge that loan to corporate XYZ, I'd buy a credit default swap. It's just a mark to market on that credit default swap.

**Fahed Kunwar**

Right, okay. I had one other question as well. And this is a slightly wider question, but just looking at the derivatives regulations kind of gone in the background for a little while now, and I know a lot of the central clearing has happened now, at least a lot of the collateral has happened. But with regards to moving onto the exchange, where are you in that process and how much is that depressing investment banking revenues right now?

**Tushar Morzaria**

Yes. So, regulations around conducting businesses on SEFs, or swap exchange facilities first started in February. You know, some businesses are almost entirely transacted through this stuff already, particularly some of the index credit default swap business. And, you know, another asset classes like rates are becoming more and more on there. I think it's a combination of a multitude of things going on this year. I think probably the largest component is just volatility in asset markets has been unusually low. I think you've seen presentations from various folks, but, as I say, these are multi-decade lows, and that's meaning that there's just less volumes in these particular Macro markets being traded, and that's probably the biggest effect rather than the move to SEFs or central clearing having the overwhelming effect.

**Fahed Kunwar**

Perfect.

**Antony Jenkins**

Thank you very much. Before we close, let me leave you with three thoughts. Firstly, on May 8<sup>th</sup> we set out a clear plan with clear indicators to track progress. Today we're on target or better across all those indicators, and we're executing the plan, and the plan is working. Second, we were able to report this performance even with significant headwinds from PPI, showing the resilience we have baked into our plan. Third, and most important, our Core business is performing well; simpler, stronger, more balanced, and with exciting potential to generate returns and growth across the cycle. Thank you very much for your time today.

## 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 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 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 2013, which are available on the SEC's website at [www.sec.gov](http://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.