Andrew Coombs, Citigroup

Good afternoon. If I could just ask a couple of questions on the revenue profile, both short-term and long-term. From a short-term basis perhaps you could just say a few words on the impact of the recent spike in volatility, both in terms of volumes and rates and FX, or from spreads and [inaudible]. Longer term, I was interested, on slide 17 I think you outlined 5% industry growth in banking industry revenues and I know that’s banking only, but if we use that as a proxy for markets as a whole and assume 5% industry growth is broadly in line with your revenue growth targets for Barclays itself. So are we… should we assume that you're talking about structural growth being the main driver of revenues to a rise in market share gains, or is it a case of you’re expecting market share gains in some areas offset by revenue attrition in others? And, if so, how much of that revenue attrition and in which areas is it mainly focused?

Eric Bommensath, Co-CEO of Corporate and Investment Banking

I want to talk long-term because you heard Antony and I are not going to talk about Q2, but I can talk about QE, if you want, or… I mean, I think it’s not surprising first from a market point of view that one point you must have a variation in the way the Fed buys or doesn’t buy bonds in the US. And it’s pretty clear to me that with the Fed buying - having such a big balance sheet in mortgages and government bonds - you had such low level of rates in ten years and five years in the US which actually led to risk assets going lower in yield. And then I’m not too surprised that you have a steeper curve today. And I think in general in the long-term, it’s a good environment to have risk again and volatility and a steeper curve.

So, if you have a business which is not necessarily linked to having big inventory but focusing on rotating portfolio and having flow businesses and having good risk management, I think it could be a very good environment, in general, to operate. There’s also the scenario of a big, massive crash but you heard how the Fed, and the commentator in the Fed yesterday is going to say, look, we never said we wouldn't look at the numbers. The numbers become very good and rates go higher. It’s also a good environment that
we all wish to see better growth in the economy for all our clients – corporates and everybody. So that’s the way I look at it, long term.

**Tom King, Co-CEO of Corporate and Investment Banking**

Yes, just adding to that, before I get to your banking question, I think that when the markets really slowed down in the second half of 2011, you were moving into a more stressed environment. We’re really moving through a pivot period but, hopefully, to a more robust economic environment, which I do think is a very fundamental difference.

With respect to the banking growth, the way we think about it is we’re really well positioned in two markets that are taking more and more of the share and, within those growing markets, we’re taking share almost in every product. So we’re not really looking to track just along what the market does. In banking, where we’ve made a very substantial investment, our expectation is that we should be able to grow faster than the market. So we obviously can never take more than the market will give you. So we’re always going to be constrained by what’s happening in the market but, within that, we will expect to take share, particularly in our US and our UK business, as we have been doing.

**Andrew Coombs**

Just on the point of revenue attrition, presumably the bulk of that’s coming in the legacy assets and the pre-Basel III rates and it will be offset by market share gained elsewhere in that case.

**Mark Merson, CFO Corporate and Investment Banking**

So we talked about the £500 million of revenue attrition in Antony’s speech, and that was focused very heavily on the Quadrant Three and Quadrant Four assets. So some of it is the transitioning business, including the low appetite for structuring, and some of it is elsewhere in the legacy assets that we’re exiting.

**Andrew Coombs**

Thank you.

**Manus Costello, Autonomous**

Hi. Can I just clarify your ‘cost: net income’ ratio target of 60-65%? Is the cost basis there including the levy but excluding cost to achieve? And, as a follow on from that, if the revenue environment doesn’t produce the single digit revenues that you’re hoping it will do, should we still hold you to the 60-65% or should we assume that the kind of absolute numbers you’ve given here are what you’re managing towards?
Mark Merson

So, to be clear, we haven’t re-established a cost to income target of 60-65%. We’re just aware that the market has focused on that over time and wanted to give some guidance relative to that, because it was a bit confusing for people. You’re right, it includes Bank Levy. It excludes Cost to Achieve. So, when Eric talked about the fact that, including the Head Office costs, will be above 60-65% through the transition period, we’d expect to move back within that range and then, in 2015, potentially below that range. We are talking with Head Office costs in, with Bank Levy in but excluding Cost to Achieve.

Raul Sinha, JPMorgan

Hi, thanks. Can I have two questions? I won’t ask a question on leverage ratio, but I think we would really appreciate if you could give us some understanding of the repo book and the dependence of revenues within your prime charts in the US on that repo book. Obviously, I note it’s 280 billion. It does look slightly bigger than your competitors. So, if you can tell us how easy it is for Barclays to reduce the size of that without revenue impact, that will be useful.

Eric Bommensath

I talk in the slide on the presentation about the fact that we look at management actions, in the case of Section 165, and we look at different ways. One of them was to go and be better at how you allocate resources under financing, which actually is where to look and how you basically link, the way you finance clients, the way you do business with clients, and that’s something we do and we’re always improving on. We’re improving on everything, by the way. We try. That allows you to actually optimise a resource. So that’s one angle. So, by doing a lot of work, the same as in RWAs, you actually can become way better in the way you use resources and then use less resources without hitting income. That’s one thing. We also talk about entities and the way you could actually move entities... so it will be a combination of these things, plus the third thing we talked about, which is non-dilutive preferred capital. But, to go back to repo, it’s about having a very good tool in MIS to understand how you allocate resources to your business and balance sheet.

Raul Sinha

[Inaudible]

Eric Bommensath

It’s not different than looking at how you basically work on improving your business model and, when you have the tools and work on the details, you can go a very long way to really understand where you actually spend every penny of resources, by building the MIS and the tools. And the way you do it, for
instance for RWA, which is another example, is by many ways. It’s like selling assets, making the business very, very conscious of where you invest the resources by client of sector, measuring the revenue, compared to the resource. You see, that’s a very, very hands-on work and requires a lot of MIS and work with my colleagues within Treasury and the Investment Bank. That’s what we’re doing.

Raul Sinha

Okay, thanks. The second question I had was just a point of clarification. Is the impact of ring-fencing likely to change your greater than 14% return on equity aspiration?

Tom King

No, we anticipate that the ring fence will be relatively narrow. Call it £130bn-ish inside the ring fence. I think there is still some question, structurally, as to where the ring-fenced entity sits but we think the information about the size and the issue of ring fencing is already in our financing costs. So we don’t think it will affect any of the numbers that we’ve shared with you today.

Christopher Wheeler, Mediobanca

Yes, thanks, just a couple of questions on two topics. The first one is on slide 33 - the legacy assets. Could you just give us a clue? The £36bn you have left at the moment on your forecast in 2015... how many basis points of that would still be acting as a lag on your ROE, in your opinion? Perhaps the second question is; Antony spoke at the very beginning about accelerating some of this process of de-leveraging. What would actually give you the opportunity to do that, in terms of obviously better markets but also your willingness to take some capital hits on reducing this? That’s the first question.

The second one, really, is going back to the cost, really on the compensation ratio. Antony sort of banged the table really hard at our last meeting on Corporate Banking. He keeps reminding us about the mid-30s compensation ratio. Your competitors, certainly in the United States, are making great play of that in terms of the difficulty you may have retaining staff, because that obviously sounds quite draconian compared to your competitors. I mean JP obviously has the corporate banking rolled into its loan ratio. Can you perhaps comment on what you can do to mitigate that competitive issue that you’re going to have to face? While we love a 35% ratio, it may not be quite such good news in terms of retaining your talent?

Eric Bommensath

Can I try to summarise, because I think there are two or three questions? So the first one you have is what’s the impact on the RoE of the £36bn? Maybe we can answer that one.
Mark Merson

That’s straightforward. It’s about 300 basis points on the total return on equity of the business in 2015.

Christopher Wheeler

The question I was asking was if the 300bp is on 2015.

Mark Merson

Yes.

Eric Bommensath

Which is consistent with the 14 plus.

Christopher Wheeler

No, I understood that. Thank you.

Eric Bommensath

The second question was on legacy assets or you want to shift to comp: income?

Christopher Wheeler

No, it’s about what you can do to accelerate the de-leveraging, as Antony touched on at the beginning.

Eric Bommensath

Well, the first thing I wanted to show on the slide is the track record. To have track record like that, it means a lot of detailed work and resources and the full organisation to work on it. Like Tom mentioned, you have to work on derivatives, you have to work on some mortgage CDO, which you have to deconstruct to then extract higher value to sell. You have to work on some monoline commuting. So what we have done, with a track record, is build an organisation in a way to really create the focus, not only from our distribution, our banking, but also our structuring team to really have a machine that works on this legacy book, in a way that protects shareholder value. So what we wanted to do is show you what we’ve done, and there’s a lot of details in the work, but guide you to where we are. Obviously, there are many, many business plans behind each of the components of that legacy book. What I wanted to show you as well is on the main business, there is some of that to do, but you also make sure, with all the tools in MIS, you build the right business. So £36bn was just a point, in 2015, as a guidance point because it’s so complex that we put a point we believe we can achieve. Did that answer your question?
Christopher Wheeler

I guess I just want to get a feel for what you, Antony’s view on how you can accelerate that. I know it’s tough. I know it’s extremely complex.

Tom King

Let me see if I can add to that answer. The reason we have things classified, as Eric said, is we want, one of the things, businesses we’re not doing anymore. But we also want to create transparency and focus on them. We also want to manage that portfolio for the benefit of the shareholders. So we have to balance reducing capital with P&L effects and unlocking the legacy assets. Each one is a very complex situation that has its time. So it’s not just about market fluctuations. It might be about how you get that equity tranche to unlock that piece of structured product or what is it about that hung leverage loan that creates the impetus for refinancing. It may be nearing to maturity. So the legacy assets, each one is specific and it will have its time, and we’re trying to stay very focused on each one to unlock it at the right time, in the right way, to balance capital and economics for shareholders, if that makes sense. So you shouldn’t take away that the 36 is the stuff that we couldn’t sell by 2015, right? So we’re going to work through this as quickly and as economically as we can, and we’ve had great opportunity, in the first several months of this year, to unlock some of those things. But they’re all very, very specific situations. So, when you have a portfolio like that, it’s hard to be incredibly predictive about two, three, four years, but we are very focused on it, and it’s why it’s in the legacy book and why the legacy book is still embedded in the business, where all the expertise resides. So we are focused.

On the ‘comp: income’ question, let me take a crack at that. I think that it’s very dangerous to link ‘comp: income’ ratio to the bonus pool, right? They are two different things, there’s overlap in it. But an awful lot of what fills up the comp in ‘comp: income’ ratio is salaries and a lot of the non-performance costs. So, to the extent you can retool your business and do business in a different kind of way, across the piece, from the front office to the back office, you can actually create quite a lot of flexibility in your ‘cost: income’ ratio for being completely competitive in the front end, and we are committed to being competitive in compensation and still have a falling ratio. So those things are not incompatible and that’s why we’re retooling the way we do business because we think that, if we can do business in a different way, cost can actually be a competitive advantage for us.

Chris Manners

Good afternoon, guys. So I have a couple of questions for you on the legacy book again. Firstly, 79bn sterling of risk weighted assets, obviously very large. You’re doing a good job of taking it down so far. How much are the cumulative losses you think we’re going to take on this portfolio, as you wind it down, if any at all? Also, I’m just trying to understand here the baseline drag from in the 2012 numbers. What
sort of revenue did they generate last year? What sorts of losses did they generate last year? Obviously, we’ve got the fourth quadrant at the group level but it’s harder to unpick at the IB level.

Mark Merson

Yes, let me help with that. Firstly, the vast majority of these assets are fair value assets. So it’s not a question of deteriorating value being a drag in the overall. They are already marked in our books at their full marks. Secondly, in terms of the contribution to the 2012 numbers, when the first 2012 numbers were printed, there wasn’t a very significant contribution. Then we had something called IFRS10 come upon us, which caused us to move some of the assets, principally CDO Super Senior assets, from being accrual account assets to fair value assets, and it pushed £300 million of revenue back into our 2012 restated numbers. And that was because there was a rally in credit sensitive assets, principally in the third quarter of 2012. So not a lot in 2012 and then in the restated numbers about £300 million. Over time, there’s a balance between some funding drag, relative to the assets, and typically some gain from unlocking value, particularly in the structured assets. When we get to 2015 and we look at that 300 basis points of drag, when you do your sums to work out 36 billion, versus 210 to 230 billion, you work out that there is some presumed funding drag. I reckon there’ll be a couple of hundred million of funding drag left in that asset pool, come 2015, and it also attracts slightly more than its weighting of risk weighted assets in terms of capital because of the nature of the instruments.

Chris Manners

Thanks.

Fiona Swaffield, RBC

Two areas - you talked about the RWA’s endgame in 2015 and your confidence. What about the impending changes on things like trading book review and securitisation? Is that baked in, that way there is as a range, is the first question. The second was on your slide on the lower volatility of standard deviation. I can see that, but I still can’t quite find the data point as to why that is the case. You mentioned some inventory turnover number but, because we don’t have it from other people, it’s difficult to compare. Could you help us on what you think the secret is to the lower volatility?

Mark Merson

Let me help you with a couple of those questions there. On the lower volatility point, if I could take that one to start with. Firstly, it’s a management orientation. So we are seeking to have lower volatility. We’re seeking to be less driven by the change in value of securities or other assets on our balance sheet, and more driven by inventory, the technology, the turnover, the drivers that Eric talked about, which doesn’t mean that we’re immune from markets because, clearly, we need people to do things in order for
us to generate revenues. But we’re not beholden to rates going up or down or similar. When I’m thinking about something technical, I might point out is there a real thing you could hang your hat on. When I observe how we outperform or underperform, relative to peer organisations, it’s generally adversely correlated with credit spreads. So, as credit spreads narrow, I see peers do better than Barclays, and there is sometimes a little bit of maybe disappointment in the market where why didn’t you capture that in your FIC business. Similarly, when credit spreads widen, we don’t get the same pain as peers. As well as our orientation towards inventory, there is a sort of technical accounting point that our loan inventory, to the extent that we carry it, and we do because clients want us to lend money to them, our loan inventory is carried as an accrual asset, which is not marked-to-market but has impairment against it. A number of our US peers carry those as fair value assets. We do hedge our exposure to credit spreads in our loan inventory, and the only way you can do that, typically, is by credit default swaps, and those are marked-to-market. So what you see in times where there’s acceleration in markets through credit spread narrowing, there’ll be marked-to-market credit default swaps. The valuation, we take a hit on that marked-to-market of credit default swaps, which is offset, if you like, but not accounted for by the loan inventory being better, and the obverse is true. That’s the only thing I can point out as a real technical point that might drive that, other than the orientation of management on the business.

Tom King

But I think the orientation point is a really important one. In a world where balance sheet is more constrained, in a Basel III world, we have a philosophy of we would rather turn over our inventories quicker, and our balance sheet quicker, and generate more revenue with the same amount of balance sheet. So, if you think about the leverage finance book, for example, we would rather syndicate quickly and give up some fees than just pile up risk, and that’s a change in the way we think about business, but it also speaks to managing risk appetite as well.

Mark Merson

Your first question I forgot, sorry.

Fiona Swaffield

The RWA range, £210-230bn, I mean there are a number of impending changes will affect the Investment Bank more - trading book review and securitization. Is that why there is a range or how do you think about that?

Mark Merson

Yes, you talked about the £210-230bn being the endgame. It’s not an end game; it’s a waypoint along the way, because it includes 36bn of legacy. So we shouldn’t treat this as sort of the long-term endgame.
The reason why there’s a range is because there’s uncertainty in how rules will be applied, because there’s uncertainty in business conditions, and also Basel III itself is more sensitive to market indicators, specifically to credit spreads. So I think it is realistic for us to think about a range and for you to think about a range, rather than us assuming that there’s a specific point we get to. I mean you mentioned trading book evolution. That’s not a, to the extent that we’ve gone through it, that’s not something that particularly worries us within that range but, the fact is, as we learned last Thursday, rules change all the time and we’ve got to be realistic about that.

Peter Toeman, HSBC

Two questions, please. Thank you for your slide on OTC clearing but I wonder if you could say how that might change spreads in derivatives markets due to increased transparency, and what your experience has been there? And, on Mark’s point about the reduced volatility through the impact of CDS to hedge the credit position, I was not surprised that the VaR for the credit business is so low and the extent to which it had sort of fallen in 2010-2011, given 2011 was a period of widening credit spreads. So I would have thought the VaR might have risen, but I wondered if there’s any reason why the credit VAR that you show on slide 25 is so low.

Eric Bommensath

There are two questions, one around the link of clearing and spreads. Well, it’s not necessarily about clearing that makes the link – it’s not between clearing and spreads – it’s like if you go electronically or to exchange. So we’re not talking about the same thing. When you talk about clearing, you’re talking about the ability to really improve your capital position when you do trades, make things simpler for clients, better data on the backend in terms of efficiency, in terms of the way you settle trades. When you talk about having mandated electronic platform or exchanges, then you talk about spreads. So I don’t think they’re necessarily linked. To go back to clearing, the swap market which in dealers has been clearing for a long time, in interest rates, and it was not even confirmed manually in the CDS in 07 and 08. In 07 you had trillions of CDS in the market, which didn’t have any documentation exchange between dealers of class. It was a big deal. So clearing is very important to really improve the industry, important for the regulators, and it’s a very good thing.

Now, on spreads and what’s going to be the consequences, which is the ability potentially to become more electronic, a more stress-free process. I draw the parallel with what happened with Tradeweb in government bonds at the end of the 90s, where the people that really went to embrace, or the firms that went to embrace the change, and we changed our business model, ended up having very, very good businesses. That’s what I think will happen. So you have to go and build, when you’re a scale player like we are, the in-house knowledge about it and work with your client in the industry to really change the industry to make it better, and I think clearing is something that makes it better.
The second question maybe…

Mark Merson

At least on the second part of your question, I think the reason why we’ve had low credit DVaR is because we’ve had very low credit risk appetite. It’s not connected with the question I talked about earlier, because you don’t carry DVaR against your accrual accounted loan assets. Those are the credit DVaRs specifically linked to our credit business, in which we had a low risk appetite and the reason for that is it’s very expensive and the markets have been incredibly uncertain. So it’s been a very conscious position to take.

Eric Bommensath

I can maybe add on the credit business.

Mark Merson

Sure.

Eric Bommensath

If you look at the credit business in 2005 and 2004, you will have a business in Investments Banks in general, where you will have structured credit correlation, whose purpose is to create tranches and sometimes very complicated base on rating agency and yield products, and you have monoline-type of desk with negative basis. You had a large financing desk on leverage loans, to create more capacity to absorb the issuance in that market. You had a huge CDS market in volume, and you had a very tiny underlying cash credit expertise in the market - cash trading of credit papers. And what was relevant at the time to really, in the business model of a lot of firms, to make the revenue was not driving the real, like you know ‘I raise money for corporate, and I have a secondary market and I can create hedge’, but what was relevant at the time was ‘How do I create yield with rating agencies and create leverage?’. Today when you work in that and you look at the business, what matters is how good your banking business is, DCM is, and how good you are in secondary and how you discipline in making a market around that. And CDS is still there, but not to the tune of what it was when you had to hedge all these exotic products. So the business totally changed, and going back more to what I call common sense, which is, issuing debt, market-making, providing good research, as opposed to things which are based on things which people couldn’t understand. That’s what’s going on. That’s where you probably use less DVaR and less funding and these kinds of things. That’s the way I look at the change.
Unidentified Audience Member

Hi. I have one question. Just following up on the previous discussion. I mean does 2008/2009 dropping out of the VaR model impact the DVaR in any way? How much would that benefit... just to think about it that way.

Mark Merson

Clearly it’s the calculation, I don’t know what the benefit is to tell you the truth. I mean clearly the large driver here is the orientation of management not to seek to consume risk. That’s clearly our orientation, because risk is capital and capital’s the binding constraint.

Unidentified Audience Member

And then second question is on ring-fencing you’ve said that you don’t think it will… I mean the guidance on RWAs wouldn’t change. Are we talking about, like if the ground rules change with ring-fencing coming in, do you think the business is adaptable and that is why you’ll get to 2014? Or do you think that the business [technical difficulty]. I mean because we don’t know really what’s going to come in the second draft. We have an idea, fixed income investors don’t really know, but they have an idea. It’s hard to make kind of – it feels a little boring to say ‘RWAs won’t change’. Adaptability is understandable. I just want to see that we are on that.

Tom King

Just to be clear, we have a view that we think is in line with the regulator’s current expectation round ring-fencing that it will be narrow. There is some uncertainty around structurally where the ring-fence will fit, but we do believe that at least as currently outlined, that the cost of ring-fencing is already built into our financing spreads. So if the rules change substantially we’ll do what we do, and articulate around it on every regulatory matter we’ll step back. We’ll try to understand what the issues are and the alternative and the levers, and we’ll deal with it.

Mark Merson

And if we think that no matter what happens to the rules we’re still holding to 11-12% or something, then we should do the presentation again because clearly we’ve got to be humble in the face of change and thoughtful about what might change. That has to be management’s job.

Eric Bommensath

Maybe just to summarise - we cannot know everything, and what we wanted to tell you is look, we do the analysis, we look at like what can happen, what are the scenarios, because there are different
scenarios in all the things, and we try to see how we can create flexibility and agility, and we’re not in denial if market conditions change or something changes. We create the conditions to be agile. That’s what we try to do really.

Chirantan Barua, Bernstein

Hi, I have two questions. One on Equities and the US. Can you give us some colour around the market share gained there? We haven’t seen that market share movement in Equities in the US for a long time. So what is behind the 6-7.8% growth in Equities in the US, and how sustainable is that traction going forward? Then I’ll ask the next question.

Tom King

Yes. Well, we’ve made good progress in Equities, not just in the States, but globally, and again I think that banking is a long cycle business, and we’ve invested very substantially in the business over the last five years, both through the Lehman acquisition and adding new talent, and investing in the execution platforms. So as we’ve become more deeply embedded in client relationships, our ability to drive, for example, the origination piece in equity has got stronger and stronger, right? So, I mentioned that we had never been number one in IPOs in the US as Lehman Bros, and now at the end of the first quarter we’re number one in IPOs, so it’s really the sustained investment in the platform since we got into Banking and Equities really that you’re starting to see come through in the share gains. I would say that’s across all the pieces.

Mark Merson

And also, you’ve got to remember that October 2008, Barclays and Lehman Bros came together, you know that was a pretty traumatic and big step, and we have… we’ve got better at it. You know we’ve seen the benefit of integration come through. So I think it’s realistic over the three-year timescale here for the immediacy of integration to success to see that sort of gain.

Tom King

You have to build a brand and an execution in these things, and it has taken some time. You know we’ve made good progress. But in the US, Barclays wasn’t an IPO brand five years ago. It is now.

Unidentified Audience Member

So does this fall under your prime brokerage market shares in the US as well?
Eric Bommensath

Well, when we look at like… there’s different elements in prime brokerage. You know you have financing, you have fixed income, and you have equities. So in the way we look at the business, we look at the vertical of equity cash, equity derivative, banking, and prime brokerage. So we had good traction when we built the businesses and now there’s a lot of work done in monetisation on what we built, to get people to function in common strategies, and I think we see penetration in our business and growth in our business simply by the fact that we execute the monetisation of what we have built over the last four years. And equity prime, or equity in Europe or equity in Asia, that’s you know of building prime and making lean equity cash is the same story: how do you basically cross-leverage equity cash, and equity prime? That’s the kind of work we do and I think if you do that work well you actually cross benefit from the two platforms. We are supposed to look at them in isolation, and I see traction in both at the same time, because they cannot function in an isolated way.

Tom King

I’ll give you an example on prime. So a lot of this getting prime balance is about your technology platform. It’s also about your relationships and to the extent you’re delivering value to a long-short hedge fund, be it your block trade business, or your origination business, you have more of a call on, say, you know, we want to hold some balances as well. It’s always a challenge when you come later to a product segment, because the differentiation that you can drive purely through your technology platform, sometimes it’s high and sometimes it’s limited, so it’s really an ecosystem of things that you provide. And so, the businesses of Markets and Banking are very, very linked, and you know the quality of the Banking franchise helps drive prime, and vice versa.

Unidentified Audience Member

Just another quick one on your clearing opportunity. What do you think is the fee-pool of that? Both in clearing and collateral management, how is it evolved? Or will it be unbundled?

Eric Bommensath

I don’t look at it as a fee pool in clearing. I look at it like if there is a fundamental change in the market, things are going to be cleared. It’s happening. It will be there. It’s mandated. It’s good. It makes sense. It’s going to happen. So there’s going to be a business compared to what we had, I repeat, in 2007, 2006, it was not cleared and not even manually confirmed between dealers in some segment. That’s not something we can tolerate, the regulators tolerate. It’s something which is inefficient, costs money in the back end. It makes no sense. Business going forward will be way simpler, but also be very good on the back end in terms of clearing and technology. You have to embrace it, and you have to change your
business and bring your business towards that change. I’m not... I mean you know I’m not doing the clearing because there is X of fee pool to charge necessary client on clearance. I do it because that makes sense. It’s going to happen and the people who don’t embrace it and don’t understand it will not have the right business model. That’s what drives me. And by the way, regulators too, and everybody. So that’s the way I look at it.

Vivek Raja, Oriel Securities

Hi. Good afternoon, gentlemen. Just a question of clarification on slide 35, the legacy assets again. So the £79bn of Basel III RWAs, can you tell me what that is in terms of gross assets?

Mark Merson

Yes. So from an accounting perspective it includes about half securities-related assets in terms of RWAs, and about half derivative-related assets. So that 38bn or so within it which is securities-related assets is about the same in gross balance sheet terms. In terms of balance sheet from the derivatives portfolio, well, it depends quite how you carve it out, and quite at what time you carve it out, and whether you’re using gross balance sheet, leverage balance sheet, PRA balance sheet, or any of the other balance sheet measures that have been announced over the course of the last week and half. It is potentially substantial, and a differential scale in, if you like, the nominal balance sheet terms, because it comprises a large proportion of the derivative balance sheet that we have on the books as at 31 December 2012, the most recent date where we published a full balance sheet.

Vivek Raja

Thank you very much. Another question. So in the key FICC product markets that you identify sort of scale or, you know, top three market share, I just wondered, can you give us the extent that you concentrate more on flow vis-à-vis your peers. I’m trying to get a sense of what your transaction market share would be relative to your revenue market share.

Eric Bommensath

I don’t have that exact number. I mean I think that we, like I explained, we have... so I don’t know what is the relative transaction to... I don’t know if I have the number. Mark, do you have that number?

Mark Merson

I’m sorry. It’s difficult to know how to respond. We aspire to be a scale flow player, and in transaction terms, we achieve that but I just haven’t got a percentage. So rather than talk for a long time and pretend, I won’t.
Vivek Raja

I’m trying to get a sense of how much more volume throughput you’re seeing for the same level of revenue.

Eric Bommensath

That’s volume compared to revenue. Well, first of all I’m talking about simple product and flow business, because I think that’s what makes sense in the future. The world wants simplification, the world wants transparency, the world wants clearing, regulators, so you cannot go that wrong if you build a business model that makes sense compared to what happened in the past and what happened during the crisis. And I think philosophically, that makes sense. It happens that we are historically very strong in that, and very strong in technology, but – and we have good balances of businesses and we have also a very client-driven business around these businesses – but you also cannot sit there and not keep improving your businesses around clearing and the way you do it, because the old flow business is not necessarily the new flow business. So now, I’m not shedding volume for shedding volume. When you have a flow business it doesn’t mean you want to print every ticket or deal with every client. You have to understand what type of business you’re doing, the details, how you segment client, how you deliver a certain type of goods to a certain client, because there is an element of cost depending on which segment client you have and how they deal with you: electronically, by voice, or, I don’t know, or how many other types of products they deal with you. You have to understand you have to go and be segmented and not only chase the volume. That’s one important point.

The second important point, flow doesn’t mean you don’t have an intellectual discussion with your client, and value added for your client. If you just bring price and flow, it’s not enough. You have to drive your content. You have to add the intellect. The client will pay you for what you show them that you can provide them, like great research, ability, high level relationship, trust, long-term relationship. So it’s not just about flow and volume. There are many other aspects on how you build a flow business. Maybe I answer your question another way, I don’t know.

Mike Trippitt, Numis Securities

I’ve got a point you raised, rather left it… the issues hanging, I thought, which is on this intermediate holding company point. I mean can you help us try and calibrate this in terms of RWAs, or the allocation of capital in the US. It seems to me it’s quite a risk for the business, and yet the disclosure around this is not as full as I would like, certainly, to try and understand the issue.
Mark Merson

Well, we can do our best, then, Mike, and actually our data is publicly available in the US, as we gave you the point is $309 billion or so of assets on our US broker dealer balance sheet, and other than that I’m not really sure where to go other than to say we have choices about how we deploy that balance sheet, and how we deploy the capital relevant to that balance sheet. I mean clearly that’s the question at issue here, and it’s clear equally that the regulators are interested in the balance of capital and balance sheet in the different locations. We have choices; the rules are unclear; we will deal with them when they’re finalised, as they’re finalised. We’re engaged. We’ve offered our opinions, and you’ve seen those again - they’re public and they’re out there for people to see and you know we will deal with that as it comes. If I had a firm data point to give you then I’d give it to you, Mike. I’m not sort of holding it back from you. It’s just there isn’t one there that is going to drive a better answer.

Tom King

We know what the levers are in terms of our flexibility and we’re waiting for the rules to develop and we’ll deal with them as they come.

Kian Abouhossein, JP Morgan

Just coming back to the 79bn, can you… I mean when you described the book, you gave an indication part of it, or let me say I interpret it that way, is that it’s a long data CVA book, and part of it is securitization. Can you give me an idea of roughly the spread of the majority CVA or is the majority securitization related?

Mark Merson

79 billion I said earlier, about half of it is securities-related, and about half of it is purely derivative-related. Quite a lot of the uptick in derivative is due to CVA and that’s the nature of the Basel III transition. In terms of the element of the securities bit, which is, if you like, securitization-driven versus other assets, because it’s not just securitization-related assets that are in there, actually the securitization-related element, the bit that came off CDO Super Senior and similar, is really quite small now, and we continue to give you disclosure of that as we’ve run down the assets over time. So I haven’t got a precise data point in my mind, but it’s not a big component of the remaining assets.

Kian Abouhossein

That’s clear. And then on the US side, you mentioned the numbers they’re public. But for legal entity, do you have a branch in the US as well?
Mark Merson

We do have a branch in the US as well.

Kian Abouhossein

Do you have the numbers?

Mark Merson

We haven’t published the branch numbers, so rather than give us all problems; that will be something that I’m not able to do, so we haven’t broken down individual branches. We’ve got a number of legal entities. Barclays Bank Delaware which is public, the broker dealer which is public and out there. I’m not belittling this as an issue: it’s clearly an issue of scale that we’ve tried to address as head-on in the face of uncertainty as we can. I sense that you want more certainty and you want me to tell you exactly how it’s going to land. But we just haven’t got it, Kian so I’m not going to pretend otherwise.

Kian Abouhossein

That’s fair enough. And lastly on SEF platform, you mentioned the trade map examples. Does that mean on SEF platforms you see no real impact on spreads without spreads for the likes of rates and credit?

Eric Bommensath

No, I’m not saying that. I was answering the question on the link between clearing and spreads, and clearing doesn’t mean you have a link with the bid-offer spread. Now, depending on how the different electronic platform will work and what liquidity will be in the platform and how does it work, there would probably be impact on liquidity, but also spreads. Not only the spread - it’s also an element of liquidity and how you execute larger blocks or a smaller blocks. And going into the details of spread, you cannot only talk about spread. You also have to talk about liquidity, as you know very well, so it’s a more complex detail. I don’t know yet, but there will be a different market structure probably, depending on the platform.

Chris Manners, Morgan Stanley

Thank you. I guess one question I have is, if we compare your sort of core RoE aspiration of 14% in 2015 to some of the RoEs that have been promised by the other divisions in Barclays, how do you actually, when you talk to Antony about it, basically demand the amount of capital that you have in the allocation from the business lines? Because it looks like you’ve got a lower RoE target than some of the other units. How do you hang on to the capital that you have, and he doesn’t give it to other parts of the business? Thanks.
Tom King

Let me take a crack at that. We think that this is a very good business, so if you think about the position we have in FICC, the positions we’ve built in Investment Banking and in Equities, and the primary markets where we're home market and where we face off, this is a very good business. This is a business that is, wrapped in some legacy asset issues that we’re working through that will improve returns. We’re going through a very fundamental reshaping of the cost environment, which will again help a lot, and where we’re planning for this business in projecting in a way where we’re not counting on the top-line to bail us out. So I think, and I don’t want to speak for Antony, but I think when he looks at our business he says this is a very good scale investment banking platform across the pieces, and we want to invest in it. So remember, when we look at 2015 it's a check-in point along the way in terms of the development of this business. But if you go down into the core and look at the fundamental pieces of what we’ve got, I like the portfolio and I think that Antony probably would say the same.

Chris Manners

Thank you.

Tom King

Well, on behalf of Eric and I and Anthony and Mark and the whole team, we really appreciate you all coming and listening to us. And as I said at the beginning, you know we really do look forward to this being the beginning of a dialogue, so thank you very much for coming and we’ll see you soon.

End
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