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Barclays PLC H1 2014 Results

Analyst Meeting Q&A Transcript

[This transcript has been edited by the company]

Opening Remarks

Tushar Morzaria

So why don't we make a start. I know some of you I think have to leave at nine o'clock so let's get going. So I don't have any set remarks. I apologise if this is a little bit later than we would've ideally have liked. We'd liked to have done this immediately after the first half results, but the calendar kind of conspired against us, so let's see how it goes. So I apologise it's a little bit off-cycle. As I say, I don't have any prepared remarks so I'm happy to jump into Q&A and make the most of the time.

There's only really one thing I wanted to say before we get going and that's just something that you have heard me say more than once. But just a reminder of what my priorities are. You've seen our longer-term financial objectives, but when I try and measure how we're progressing against them quarter by quarter there are four things I'm most focused on. First and foremost the Core part of the company; is it generating at least a double-digit return? Obviously we've set our sights on a 12% return on equity as future target, but I'd like to make sure that we're operating in double digits quarter in, quarter out, and that's an important measure for us.

Second is capital; we want to be accreting capital progressively quarter in, quarter out. You've seen us do that in the first half and that's very important as we glide upwards towards our longer-term capital targets.

Thirdly, reduce Non-Core again progressively. We've made some reasonable progress in the first half and really reducing Non-Core across so many measures. Obviously risk-weighted assets, leverage, minimising the ROE dilution effect that Non-Core has on the rest of the company; shrinking in almost every single way you could measure it.

Finally, which I'm sure we'll talk a little bit about, is trying to grow our tangible book value over time and that's an important measure for us again as we go through the subsequent quarters.

So that's what I'm really focused on and if we do that progressively over the quarters, then we'll glide up to meeting, and then hopefully doing a little bit better than, our financial objectives. We'll see how that goes. But that's all really I had to say.

Why don't we just dive into Q&A now? For those of you who've been here before, I think what I find the easiest thing to do is just to take a question one table at a time. Just introduce yourself in case folks don't know who's asking the question, and we'll just keep going until either you guys leave or we run out of time. So why don't we start from here and go round.

Question 1

Chintan Joshi, Nomura

You managed to sell Spain. How are you placed on the other geographies? What kind of timeline are we thinking on those? And secondly, you already had targets on Non-Core; when can we expect some new guidance around where Non-Core RWA should be at the year end or in the foreseeable future? Thanks.

Answer

Yes, thanks. So on European retail, obviously we are exiting Spain; you guys all know about that. There's no doubt that Spain was probably the one country where the businesses we've got, out of all the four countries, are most attractive to other banks as those countries consolidate their own banking markets. Spain definitely felt like the one that was more ripe for consolidation; I guess over the last few quarters concentration across the three larger banks in Spain, and obviously the transaction that we just announced with Caixa is very much consistent with that, so it wasn't surprising that I think Spain was the more likely transaction to happen.

When I look at the other countries, Italy is probably the next most significant. France and Portugal are relatively minor in the scheme of things, so Italy would be the nice one to see move. I think Italy will take longer, though, because I think the Italian banking system isn't in a consolidating mood or a mode, I should say, as Spain is, but we'll continue to look for opportunities. To the extent there isn't consolidation, we do have a functioning commercial business there and we continue to run it on a commercial basis and look to accrete value in that business and be patient, if necessary. But I think banks are the more, or the most, logical acquirers of these businesses and we'll be patient and wait for the right opportunity.

In terms of your second question, Non-Core targets, yes, you're right if you pro forma the Spain deal will close on or around year end. It may be a little bit after. It's subject to regulatory approval and various other steps they need to go through so you can never be quite precise on the timing. But if you pro forma it, obviously it's somewhere between £7 to 8 billion of risk-weighted assets, depending on where FX rates fall on the close. You've seen we're around £87/88 billion for the first half so Spain takes us pretty much down to the £80 billion that we guided to. We had in our mind that £80 billion wouldn't include any reduction from European retail, so I think we'll flex that £80 billion down to whatever that becomes - £73/72 billion and guide there. That's the objective that we'll set ourselves for year end and we'll see how we do.

Question 2

Peter Toeman, HSBC

When we were last here I think you said it wouldn't be possible to get a handle on the underlying earnings power of the investment bank until at least the fourth quarter of the year, so I wonder if you could just update your thoughts on that, whether it's still impossible to see the trends emerge?

Answer

Yes, I'd probably stand by that guidance. The second quarter was a sort of partial quarter, a first quarter of transition. It was only a partial quarter. Q3 is always a slightly unpredictable quarter. It's been surprisingly volatile in previous quarters, but it feels more like a traditional summer this year, or at least July, as I mentioned on the earnings call. It felt like summer was beginning, at least for us, so I think it wont be until we get through this year that we'll have a clearer picture. It is a large transition that the investment bank is going through and in some ways September, October and November will be interesting months for us because there's usually a quite interesting period of activity in capital markets during that time, then it generally slows down a little bit just before year end.

So I think it's very hard to give much guidance this early on in that process, but I'd just remind folks of the comments I made on the call, which is July was the slowest month that we had this year. It was a noticeable slowdown for us and it is a transition year for us, so there are a lot of changes going in the investment bank. We're gliding down; we're just a little bit over the £120 billion of risk-weighted assets that we've asked the business to operate at and there are quite significant headcount changes that went on in that business over the course of the summer. So there are plenty of things going on there and I think until we get through that phase it's a little bit hard to give precise guidance.

Further question

Do you think going forward that the earnings for the investment bank are going to be a lot less volatile? Whatever it settles at, do you think it's going to be a lot less volatile going forward?

Further answer

Yes. For us specifically, compared to previously it's a smaller size capital base that we'll be running or smaller size risk-weighted assets and leverage and it'll be more of an emphasis on origination/primary activity. So it will have a level of revenue cyclicality, but it won't be as balance sheet heavy a business and some volatility will be taken out of our revenue streams prospectively as a consequence of just running lower risk-weighted assets and running lower leverage.

Question 3

Fiona Swaffield, RBC

Can I just ask on the cost side and whether you're going to give us a bit more clarity on the extent to which conduct costs could continue to weigh, because I think it's quite unclear to me how much was in Q1 versus Q2. But also on the cost side, how much currency may have helped you in the first half, because I'm struggling to understand where we are versus your targets on an underlying basis.

Answer

Yes, so to reconfirm or replay back the targets that we set ourselves for this year, I think it was at the first quarter call I said that folks should expect our cost base to be around £17 billion for the year, so that's still guidance that we hold. We've tried to be helpful in spliting disclosure of our cost base into core operating expenditure as well as showing separately conduct and litigation. Conduct and litigation is essentially fines charges and litigation settlements. It doesn't include all lawyers' costs and related expenditure. It's settlement costs as opposed to ongoing legal expenses we would incur in dealing with issues. So hopefully that allows you to see through the core operating expenses trajectory of the company and how we're doing.

The reason I'd like to think it's helpful for you guys is that of course conduct and litigation is somewhat situational, can be a little bit lumpy and there's no run rate as such because these come and go and it's very hard to predict. The £17 billion that we guided to should be across both of those line items, but I would caveat that for two reasons. One is foreign exchange rates. Now, if foreign exchange rates held at around the first quarter, then we should be in the zip code of £17 billion. If Sterling weakens, and it has come off a bit, then it will put a little bit of upward pressure on there. But I actually would prefer a weaker Sterling environment because our revenues will increase and our profits will increase.

So a strong Sterling is a bit of a pain for me, so in many ways I'd be much more comfortable closing the year at say £17.1/ £17.15 billion because of exchange rates, because we'll probably make a couple hundred million Pounds more of income and better capital etc. So where Sterling has weakened (it's probably more noticeable in the Rand at the moment) so I wouldn't be surprised if we are going to close weaker. It's very hard to know where exchange rates go, but if they stay where they are it feels like we'll be a touch over £17 billion. But we'll see how that goes. Maybe exchange rates come back to where they are. It could even go the other way and maybe we'll be under £17 billion if rates go up to 1.80 or something like that to the Dollar.

The other big caveat, though, and this is probably more relevant, is the one-time, large and unpredictable litigation type charges. So if there's a big case that does get settled and it gets settled for a few hundred million Pounds, particularly if we do it now or fourth quarter, it's very hard to find cost capacity in such a short space of time to absorb that. So I think that will always be difficult for management to predict the exact time of these things and if we see a good deal, we'll take it and not handcuff ourselves into pushing that out into another year when we may not get such a good deal.

So in summary I think if FX rates stay where they are today, it'll probably be a little bit above £17 billion. We'll see. And the only other caveat I'd put on there is the large, one-time, unpredictable litigation and we'll call that out for you guys. I think we would manage you through that quarter by quarter and try and be as transparent as we can about that.

Question 4

Chris Wheeler, Mediobanca

Can I ask a couple, or maybe even three, but they'll be quite quick I hope. The first one is on the compensation ratio in the investment bank. Have you given any more thought to where you think that ought to settle in 2015 given the new shape of the business and the new structure? And while I know that Antony said it's the cost income he's worried about, the bottom line is that I think seeing the progression in compensation and how you maintain it is going to be quite important, so I just wondered if you've got any further on that because it was a bit surprising when you just cut it from your half year disclosure

The second one is on the challenger banks. A lot of noise around them now for obvious reasons. I've just been looking at some of the data here which seems to suggest that you're losing more current accounts than you're gaining, to perhaps a greater extent than your competitors. Not massively, and I know you'll tell me competition is good, but what are your concerns about the fact there seem to be a lot more players trying to eat your lunch effectively?

And then just finally, I know you said you wouldn't comment on the US FBO until after you filed in January, but obviously with this morning's news on the US liquidity laws; have you given any thought to that while you've been preparing for today's meeting, in terms of what it might mean in terms of shifting more liquidity out to the US? Thanks.

Answer

So let's take them in the order you set. So compensation ratios, you're right, we didn't disclose it. When I first came into the company in the fourth quarter of last year I was quite surprised by the extent of the compensation disclosures Barclays puts out in its full year results announcement; it's got pretty much every number you could imagine. We'll almost certainly stick to a similar level of full year disclosure there. I haven't given it a whole load of thought about whether we'll disclose something in the third quarter. We may do, we may not. We'll get people's feedback here. So I'm not sure there's much more I want to say on that at this stage.

The only thing I would say is, though, I'm very supportive of what Antony was indicating that there is an intense fascination with compensation ratios, particularly in the UK market, but they are an output as much as an input for us. We do want to manage the investment bank for returns and that's the most important thing for us. The breakup, the makeup of that expense base of course is relevant and you will see that as we settle on what the final compensation level will be for the investment bank this year. But at the moment we're much more focused on aggregate cost-income and ROE.

The second one was on challenger banks and current accounts. Yes, the numbers are small. We're not seeing that dent our profitability at this stage. These numbers aren't of significance. You're right, competition is great. It's healthy. It keeps us on our toes. But I think for us and possibly any of the larger UK banks to really structurally see our profitability materially go, I think that's still further down the road. I think these numbers are still quite small at the moment. You look at the products that have very high margins for us; things like mortgages, personal lending, corporate banking for that matter. Our market share there is holding up, if anything slightly increasing, and mortgage market share continues to flow higher than our stock share so it continues to trend up.

I think in the first half we even disclosed we had probably our highest level of mortgage market share that we've ever had, or at least in recent times, and that's holding up well and that's a very profitable business for us. There is a link between having strong operational relationships through a current account and these various other higher margin products, but I don't see that being a structural impediment at this stage. But it keeps us on our toes and we've got to be innovative; we've got to price well and pay attention to those things, but I don't see it as an issue yet.

FBO, in many ways the liquidity rules as I read them, and I've only skimmed through them this morning, I couldn't see any big surprises and FBOs were still excluded, I think which was in the NPR, so I didn't see anything very significantly different. There's actually some wording there about what it does to FBOs or how it applies to FBOs and it's unfortunately not particularly clear. So my working assumption has always been that there'll be a liquidity framework a la LCR that I think most FBOs will have to have some compliance. My thinking has changed around that, so we'll plan and continue to plan based on that eventuality and if it means we don't have to, that'll maybe give us some choices.

But we're working on the assumption that there'll be some sort of LCR framework applied to us, although I must say that as I read the language, and I've only skim read it so you guys will probably get a chance to read it in a bit more detail, unfortunately it didn't feel very clear to me, but it opened up the question of whether there is a requirement for FBOs. It hinted at it, but it wasn't precise. So I'm sure folks are reading it properly when they get into the US this morning and we'll get a better indication in the next day or so.

Question 5

Martin Leitgeb, Goldman Sachs

Just a few questions, mainly clarification, on a number of litigation issues. There has been obviously some progress over the last few weeks and months, and maybe number one here, is the Lehman litigation. There has been a ruling, I think, in your favour. What's further down the road for that? What are your expectations? And I think you have a provision here; how do you see the likelihood of that provision potentially reversing at some point?

The second one is obviously on FX, and there has been a lot of press coverage with regards to the FCA potentially agreeing on some form of fines by the end of the year. And, again, just what is your view here? Is this too early? It sounds a bit early in terms of timeline, but does this potentially open the way for civil litigation afterwards which could be more material? Is that one of your concerns?

Finally, dark pools; it's really just to check if there has been any updates since your response which you published a few weeks ago. Thank you.

Answer

On Lehman, yes, you're right. I'm sure most of you saw that. The issue there, again it's in our disclosures, but it's all to do with a dispute with the Lehman estate, the trustee in bankruptcy over certain assets that we're both asserting title to. We won that case in the court. The trustee appealed it and the appellant judge upheld the ruling, so that's a positive development. Now, of course I'm not a lawyer, but there seems to be continuing legal opportunities here to continue to challenge, so the ball is back in the trustee's court; what does the trustee do next in terms of is there an opportunity to re-appeal?

It's a matter of contract law so that gets well beyond my skillset as to what legal avenues the trustee has available to them, but that's what we need to get some more clarity on. Now, obviously the trustee will file and has filed motions to allow an opportunity to appeal. That's just what everybody would do in the circumstances to give them that option. What really is the case now is what substantive reasons can the trustee give to appeal. So we're inching closer to a conclusion and it's been in our favour but legal processes are legal processes and there's so much we can't anticipate.

Further question

Obviously the trustee has quite a substantial amount of funds to pay in case the ruling goes in favour of Barclays. I'm not too familiar with the bankruptcy proceedings. Are there any concerns on your side that if you get a ruling there might be some issues there, or is that covered?

Clarification of futher question

In our favour you mean?

Further question continued

Yes, so basically I think there's several billion outstanding that they would have to wire to you.

Answer

Yes, so I've got to be careful. I can't say too much about these things. So I'll just leave it at it's favourable thus far in terms of the ruling. The trustee has got to think about whether they can challenge that and we'll see where that goes. I think getting into the weeds of where these assets are and who's got them and how title transfers, it's probably for another day. We should really get clarity on the legal outcome first.

Your question on FX around the FCA and whether there's a settlement; that remains to be seen. Again, this is something that you can appreciate I won't be able to give you much comment on. We'll just have to see how that plays out. Certainly from our perspective it's nice to deal with these issues, nice to put them behind us and nice to move on. So we're obviously open to try and move forward under the right facts and circumstances and appropriate framework and we'll continue to work with everybody who's involved in this. And there are multiple agencies around multiple jurisdictions so it's an intensely complicated state of affairs and we'll be as cooperative and want to move forward as best we can.

Dark pools. Nothing's really happened over the summer. We filed our motion to dismiss in late July. Of course now the ball again is back in the New York state attorney general's court who would respond to that rebuttal and then it goes to a court for a judge to hear the motion to dismiss. Nothing's happened since we filed. We're waiting for his response and he has a period of time to frame that. It's not that surprising with summer and stuff like that, so maybe we'll hear more over the next few weeks and months. We'll see.

Question 6

Manus Costello, Autonomous

One of the bigger events we've got coming out later this year is the Bank of England's leverage review and the finalisation of the framework. One of the ways they seem to be leaning is to disallow AT1 from the calculation of the leverage ratio. I just wondered how you would approach that, both in terms of your future capital build to meet a new core leverage ratio, if that's necessary, and also what you might do with the outstanding AT1. Would you insert leverage triggers as well, or how would you cope with the core leverage ratio?

Answer

Yes, it's very speculative and I think it remains to be seen. Let's see what the final rules are and we'll work with the regulators on whatever those final rules are. What's most important to us as a company and certainly to me particularly is just to continue to improve our leverage ratio and continue to accrete capital; that's the best thing we can do. We've made pretty good progress on that. You've seen where we are at the half-year both on the PRA measure, and on the new Basel measure which the PRA have asked all UK banks to adopt and we'll continue to report. Whether there are buffers, whether there's restrictions on how much AT1 qualifies, whether it's just a CET1 ratio, whether it's time varying buffers, I mean, I could plot a gazillion scenarios or I could just continue to accrete capital and wait for the final set of rules.

It is a consultation paper, some comments have already been sent in by the banking industry, ourselves included, and we'll continue to contribute on that and continue to have a dialogue. I think the other thing, of course, is calibration which is probably the one thing that everybody wants to know which I think is a 2015 outcome. So it feels like we could spend a lot of energy trying to strategise every single outcome or just continue to accrete capital and improve our leverage ratio, which has to be consistent with whatever outcome ultimately is in place, and I think that's what our focus will be for now.

Question 7

Sandy Chen, Cenkos Securities

Looking at the provisions line item, the other conduct and litigation provisions went down in the first half by a reasonably good amount on small sums and 388 to 288 for the other conduct and 485 to 358 for the litigation. Should we interpret that as a signal to contra all the disclosures or is that more just the workings of IFRS on creating a general litigation reserves provision?

Answer

Yes, there's no hidden message in any of that. No, there's nothing I'd call out. I think we try and be as helpful as we can in terms of showing as much as we can on conduct and litigation. Obviously it's a slightly difficult thing because we could prejudice situations that have been provided for, so we can't give full disclosure on provisions. But you see it on our balance sheet and you'll now see it separately in our P&L statement as well. But there's no message on the balance sheet or provisions that I'd call out to you guys.

Further question

And any update or further thoughts on ring-fencing?

Further answer

Yes, on UK ring-fencing, I guess the most interesting thing will be the consultation paper from the PRA which I believe is first half of October or middle of October, maybe. That will be very helpful for us because it will give us a better sense of how high the ring-fence is. We have a fairly clear view in our minds of our corporate structure and how it would look; US, Africa, UK etc. That's quite clear in our minds of how we'll set that up. I think it's appropriate that we share that with everybody once we've reaffirmed that that's the right approach with the consultation paper, and I haven't seen the consultation paper yet. We're in constant touch with Andrew Gracie at the PRA and David Rule. But we've got to let the consultation process flow otherwise we'll just be tempting fate and speculating which is probably not helpful to anybody.

Question 8

Tom Rayner, Exane BNP Paribas

Can I firstly just go back to Non-Core because it was like you are a little bit ahead of schedule, excluding the Spanish disposal in terms of the asset rundown. I'm interested in your thoughts on total lifetime loss on that Non-Core portfolio. I don't know if you could give us an update, if there's been any change in your thinking and particularly I'm interested around the £50 billion RWA target for 2016, when we start to look beyond that, what sort of losses to expect, when we put together operating costs, potential disposals, maybe some of the sub debt that's still hanging around, just to get a feel for how you view that residual drag. And then my second question would just be on these consultation papers because at least one of your peers has suggested he doesn't really think they're much of a consultation. They tend to be sort of directives which are put out. And if the leverage ratio consultation really follows what it looks like it's suggesting, I think that would put a bit more pressure on your leverage plans so I just wondered, if the consultation is the final answer, how you might react to that. And I guess the same with ring-fencing; if next month they come out and say there's no flexibility between a narrow or a broad ring-fence, how would you see yourselves react to that as well? It just feels like there's a lot of uncertainty still.

Answer

Yes, that's a fair point. I'll come on to the order you asked them. So take the non-core lifetime losses, that's a big ask when we're only, a few months into a journey! I think the clear milestones for us will be somewhere around £73/72bn of risk weighted assets this year getting down to it will be below £50bn now because obviously we've sold some of Spain- and we'll see how well we do there. This is somewhat market dependent and various other factors that we need just to keep in mind. Success for me beyond that would be that the amount of capital that's consumed in non-core becomes very manageable in the context of the size of the group, and the ultimate success will be that we stop having a Non-Core division and you wind it back into the core. And that's really what we'll push all our efforts to try and achieve, and that means we've got to get all of these things right. So we've got to get capital out by reducing assets, reducing leverage, we've got to get our cost base down as those assets run off, and your point's very right; we've got to make sure that the liability side of our balance sheet also is managed in accordance with that asset rundown profile. And that's what we're focused on.

I think the more measureable medium term progress is going to be defined or progress is going to be measured by the dilution of group returns. Beyond that point we'll think about what the right objective measure is of how we're doing. But the ultimate long term objective here is just to shut the Non-Core unit down or perhaps more realistically fold it back into the core bank when it's small enough that it doesn't really impact the group. But at the moment I think as we go through the quarters, shrinking the scale of Non-Core and all the measures of Barclays Non-Core is the right thing to be looking at.

In terms of leverage ratio and is the consultation paper really just the final paper? I don't know. We'll find out in due course. But let's assume, what happens if the leverage ratios really go to 5%, or pick whatever number you want, and maybe there's a 25% AT1 restriction, maybe it's CET1… whatever flavour of that we want to do? I think when we put our capital targets and objectives together, a greater than 4% leverage ratio was always something that we thought of as probably a staging post and that's why we used the words, greater than. And we're at 3.4% or so at the half year so we're not a crazy distance away from somewhere above 4% and that's a meaningful objective to have for ourselves.

I think all of this really boils down to timing, and we've had this experience firsthand. So if what happened last time, which is there's an accelerated and an immediate compliance requirement or compliance to a level that's materially different to where we are in an accelerated timeframe, that can be a very stressful situation, as we found. If compliance is over a longer timeframe then I think all things can be resolved in relatively good order. When I look at the US example it's perhaps a case in point. So when I look at US banks and the supplementary leverage ratio in the US, there aren't too many banks that are compliant today with those measures. But the market is quite relaxed about that because everybody can see a path to compliance by the compliance date and the regulators are comfortable that that compliance date is the right date to be asking the banks to move towards. So it's a very well managed, controlled process to compliance. I think as long as it's got that framework to it we'll be able to cope with almost anything. I think if it's accelerated compliance in very short timeframes, that's where it becomes quite stressful for any institution. So I think that's the most important thing. The number will be the number. It's more the compliance timeframes that are probably the most relevant to us and that's why we'll try and move as quickly as we can anyway.

And then your final question on the ring-fencing. A similar issue although the compliance timeframe is more fixed already, 1st Jan 2019. It's a very high ringfence such that we have to run an independent board that the group board can't really influence with any degree. We can't share operational services, so it really becomes a self-contained, locked up subsidiary within a group. We'll have to assess what that means in terms of Barclays Group but that's not our base case assumption at least here and now. We'll wait for the consultation paper. If it's a very high ringfence and we need to adapt our plans, of course we will do. But we think at the moment there should be scope to be able to run a ringfenced bank within a broader group. If that's not the case then that's not the case. We'll see what the consultation paper says and that's why we're eager to see what's written there.

Question 9

James Invine, Societe Generale

I was wondering if you could talk a little bit about the hedges please, because you said, I think, on the Q2 results call that the pressures you'd seen in the past were going and it should be about sustainable where it is now. Was that a longer term comment and does it still apply even when rates are rising? It was a bit surprising to me that you could have a portfolio that's generating nearly a billion a year and that's sustainable on a long term basis.

Answer

Yes, so you're talking about the equity and product structural hedges. The point of my comment was that we do this, like pretty much most banks tend to do these, the hedges tend to be a strip of hedges. I used to call them caterpillars, we call them something else here; some rolls off and a new one comes on, a some more rolls and it just grinds forward. So we know in a flattening rate environment, as we go through that, you lose the higher fixed paying hedges and fix into lower paying hedges. So you see pressure on your NII line as you go through that flattening rate environment, so the protection erodes over time and you get re-locked in at lower fixed rates. The point I was making was I think we're getting to a plateau on the fixed side. Our equity structural hedge is roughly a five year hedge so you can work out what interest rates are and when we're fully at a full five year flat curve you'll see where we're earning. In a rising rate environment obviously the caterpillar fixes will start climbing again and you'll see that feed back thought into our NII line.

So in terms of guiding, in terms of NIM where this is perhaps more relevant, you've seen the benefits of higher level hedges come off over the last few years. I think you're seeing the tail end of that now as rate curves have been somewhat flat for a period of time. If long rates continue to come down again, and maybe they will, then I guess you'll see a bit more downward pressure. If they're beginning to rise up then you'll, over time, see that feed back in.

Further question

And basically the way you measure the numbers you disclose, I mean that's just a return on the portfolio versus LIBOR, is that right?

Further answer

I think the number you're looking at is the pounds of net interest income from those hedges. It's not a reference to the floating or anything. It's just literally the net amount of pounds sterling.

Further question

Are the durations of the hedges the same?

Further answer

Well our equity structural hedge is about five year. Product structural hedges are obviously different by product. Yes, Andrew?

Question 10

Andrew Coombs, Citigroup

A couple of questions from me please; firstly by end 2016 you previously indicated you expect the Non-Core to still represent a 3% drag on the group ROE. By end 2016 I think the expectation was that the bulk of assets left in Non-Core would be attributable to long dated rates but also to the European retail business. So bearing that in mind, perhaps you could share what your embedded profitability assumption was for the European retail business and therefore how much of that drag has been removed with the sale of the Spanish business. And then secondly on provisions, with the conference call post Q2 you guided to a small step up in provisions in the second half. You suggested you were comfortable with current consensus. Given the trend that we've seen, it's been a declining trend virtually across every division; where do you see this step up coming through there?

Answer

Okay, I'll take them in the order you asked them. So I think the real heart of your question was how much did Spanish retail contribute to losses for Non-Core and what loss assumption should be around there at the back end.

Further question

The issue is that we know the historical profitability of the Spanish business but I'd assume you modelled an improvement in the loan loss provisions into the 2016 numbers that you were guiding to, so just trying to get a feel there.

Further answer

Yes, and obviously we didn't split that out which is why you're asking the question. Going back to the £50 billion RWA, about 15 billion Europe at the time, we assumed we weren't going to sell any European retail, at least to give you that level of granularity. Obviously the Spain business has gone and that's about roughly half of that £15 billion I guess. The rest will be, hopefully, longer dated derivatives position; at least that's our working assumption. We want to wind down and exit the operational businesses through things like the Spanish sale and others that we're working on. In terms of the loss assumptions there, I'm not sure we will break that out and give you that look inside. I think the right thing to do is continue to guide to a target ROE dilution. In some ways we've given you the capital, we've given you the ROE; it's not that difficult to figure out the profit assumption that we made so I'll probably leave it at that and not break that out yet. I think as we get further we'll plot our journey beyond 2016 then I think we will give you a bit more granularity but it's too early on in that journey to start breaking it out yet.

Provisions, yes, you're right, I did guide up on provisions and the implied consensus for the second half. Backing out the first half felt about right and I think that would give about 1.4 billion which is higher than the 1.1 billion or so that we had in the first half. There were some one time recoveries that we booked in the first half that are non-recurring. That was across our PCB segment, our Investment Bank and actually a little bit in Barclaycard as well so they shrink the level of provisions that we booked in the first half. Secondly, we are updating our loan loss models as we do every single year; this is a thing that we tend to do in the second half of the year. I think you will see that as a consequence of that, particularly in our consumer businesses, just the recalibration of our models, we try and be as conservative as we can, so you will see a tick up there. And finally Barclaycard, I think you'll also see a tick up as well. I remember someone asking a question on the call around the balance sheet growth in the card receivables. Obviously that volume growth will come with some impairment that will pick up. It's a very good returning business in terms of the risk adjusted returns but you won't just see an income pick up, there will be an impairment pick up that goes along with that level of volume growth. So I think when you put time recoveries that aren't going to happen again, some model updates, particularly in our consumer businesses, and volume growth particularly in Barclaycard which will result in increased impairment, particularly as we recalibrated our models, you'll see that that pick up in the second half of provisions is about the right level to be thinking about. We won't hold it at £1.1bn. We will be higher than that.

In terms of the underlying trend, is credit benign though, the underlying trend perhaps is a bit more helpful to you. We're not seeing stress in underlying credit so this is just a feature of our business mix, volumes and one time recoveries versus no one time recoveries. So I'm not saying credit is deteriorating but as an accounting value that number will increase and you'll see an increase in the third and fourth quarter relative to the first and second quarter.

Question 11

Chira Barua, Bernstein

Two quick questions for you; one was on your interest rate sensitivity, when you disclose that, does it include the impact of the hedges that you talked about or was it purely from a business non-hedge net interest income perspective? That was number one. And number two is you've been building up this US card business which is becoming a sizeable player in the US, so it will be great to just give a little bit of an idea around how you're thinking about this business with new rules, the new US stuff coming in. So do you want to keep on with the business and build it and at what pace, or do you want to divest it. What is the future strategy on the US card business?

Answer

Yes, on the interest rate sensitivity, it's just a mechanical calculation. It's a slightly odd thing in some ways because we're just not going to sit there and assume that LIBOR is going to tick up sequentially without any management actions; without repositioning. So it's a slightly quirky calculation. All I'd take away from it though is that PCB particularly is reasonably well positioned for a rising rate environment across almost everything it does. Whether it's on retail banking, wealth or corporate we will benefit from a rise . There's no secret there. Pretty much every bank in the world should benefit from a rising and steepening yield curve. That's really all it's saying. It's just one scenario and it's probably the one scenario that absolutely won't happen, and we're not just going to sit on our hands and watch a yield curve rise and steepen and do nothing. So it's a quirky set of numbers.

The US card business, yes, you're right; the business is doing really well. In fact I can see, there may be a situation where the receivables in our US Card business could get larger than our UK business, hopefully while I'm at the company but that's how that growth has been going. So it's been a really good success story for us. There are ways in which we could and would like to continue to grow that business. Things we don't do, for example, like white label products. We do a lot of co-branding but we don't do white labelling. It's an opportunity for us. We'll see if we've got the investment capacity in the company within the cost constraints we've set ourselves but we'd like to find that capacity and work on that. We continue to do very well in terms of the co-branding actually and some of the folks that we're co-branded with, I get quite surprised at how well we're doing. There's another very big account that we're in an RFP for. If we win that you'll read about that; it would be something that would probably get disclosed over the next several weeks. It's not imminent. But it will be just another good example of how we continue to grow that business.

We do some pretty fancy stuff that most people don't even know about. Take for example Apple point of sale financing; all of Apple in the US, and the UK for that matter, is Barclaycard. We do want to grow the US business. It's a nice business. We don't have plans to sell that business. It's a good part of the family. It has very good return characteristics, very good growth. The thing with the card business I would say though is we've been punching very high ROEs in card which is great, and good profit growth. To continue that level of growth and ROE generation will require investment. And the way the card business works, as you guys probably know, it's a kind of J curve business. So you invest today, you profit tomorrow, invest today, profit tomorrow. So I think you'll probably come off a little bit off those ROEs as we would probably want to ramp up investment so we continue fuelling growth in subsequent years. If we just let that ROE drift up and up and up, what will actually happen is you'll see no growth in the out years. So you want to stay in that tramline of mid to high teens, probably mid teen ROE is the sweet spot because then you're growing absolute size as well as generating a very healthy return. If it drifts up too high you're probably under-investing and you're probably going to lose growth in subsequent years. So that's how we think about the Card business which has been a really good engine of growth for us.

Further question

Just in terms of profitability, will it be fair to assume that the US business has lower profitability than the UK business or is it generally the US market?

Clarification of further question

Sorry, in terms of absolute size?

Further question continued

No, the profitability, the returns that you have.

Further answer

Yes, the UK business is structurally more profitable then the US. It's going back to what I just said; we're investing in the US business so that, if you stopped investing the profitability will zoom right up but that's probably not a good thing for us because we'll have no growth. But your comment is about right.

Question 12

Michael Helsby, Bank of America Merrill Lynch

I've got three questions. Firstly, just going back to costs, I think I asked it on the conference call actually, but if you clean up the first half numbers, or the Q2 numbers actually, the annualised pace of cost growth, I think it was about £16.4 billion for the year and obviously your guidance is £17 billion which implies you've left some buffer in for that second bucket of conduct and litigation. Can you give us an idea of what that is, because presumably you've still got some cost savings coming out in Q3 and Q4 as you run through? The second question would be on the Investment Bank. Firstly, if you could give us a guide of what you think the core IB headcount needs to be, and then kind of related but not really, clearly the Investment Banking industry is going through a massive change, particularly in rates as electronic is being rolled out, and you're now starting to see different players move and change direction, so UBS and Credit Suisse are going definitely down more of an agency driven model. It feels like you're kind of in a hybrid position but if you could give us a sense of where that balance sheet, between agency and market maker, are you more agency now? If you could give us a sense of that it would be helpful.

Finally a bit of a tech-y point; in Barclaycard can you tell us how you actually account for balance transfers, loan balances as they come on? So do you take the fee all upfront in your revenue recognition, are you smoothing the zero - what assumptions are you making in terms of revenue recognition on these balance transfers? Thank you.

Answer

So on the £17 billion cost first, I think the thing you're probably missing there, Michael, is the bank levy. So think of about £600 million for bank levy.

Intervention

I've accounted for the bank levy.

Answer continued

We should probably do the reconciliation with you - and I think you will get to a higher number than that. Well, I'm happy to get Charlie Rozes to maybe just show you how. There's probably something different in the way you're analysing it to the way we're thinking about it. But you should get closer to £17 billion. We'll figure out what we're doing differently.

Although the bank levy is a little bit harder to forecast because the rules keep changing and the rate keeps changing. But in my mind I've got somewhere around £600 million in the bank levy, so that may or may not be helpful. I think consensus was probably a bit lower than that. The other thing actually that might be helpful on the bank levy while I'm here is just how it splits between core and non-core. That's probably a tricky thing for you guys to forecast. Probably 80/20 is not a bad rule in terms of how the bank levy falls. As we roll down the leverage in the non-core obviously the bank levy gets less there. So we'll figure out where our arithmetic is different but we won't be hitting £16.5 billion expenses and it's not going to be because we've got a £600 million conduct estimate in there. We'll figure that out.

IB headcount, I don't think we've disclosed this. We have disclosed the 7,000 that we would reduce , so that will take us to sort of high teens; 18 or 19,000. Is that the right level? Well it is based on the size of the IB that we feel we're running. If anything, probably it's the right level at the front office. I'd love to have scope to continue to reduce the infrastructure and support costs associated with that, although the pounds impact is less dynamic or dramatic I should say because a lot of that stuff already happens in low cost centres and stuff like that. But we're making good progress in reducing headcount. We probably don't spend a lot of time disclosing headcount. It's one of these ones that there's 100 ways of counting it but we'll probably talk more about it at year end. But we're doing quite okay on that.

The agency/market maker one is an interesting one. I think that as a general rule probably most dealers are becoming more agency-like in their business, some perhaps more extreme on that spectrum. I think for us we're probably more agency-like at the moment and I think that's somewhat driven by business flows and opportunities. Volumes have been low for a little while and continue to be low as yields continue to fall and volatility doesn't spike up. I think if that reverses and became a very active asset class, I suspect you would see more traditional dealer behaviour which is just natural because it's more opportunities and providing more liquidity to clients will be a more profitable business. So I think for Barclays we're probably more agency-like at the moment with the option to become more dealer-like within our capital constraints. So if we're running £120 billion of risk weights in the commensurate leverage and we wanted to put more in rates or macro, we would have to take it out elsewhere and we'll be disciplined about it - we won't grow the IB beyond that; we would rotate within there.

The zero balance transfers, again we'll probably get you the exact IFRS answer for that. But you see that actually in our first half results because some of that volume growth that you saw was actually zero balance transfers. But you saw our income grew 5% but the balances grew roughly double that, so we're not loading all the revenues up front, you can see that. It actually reduces your return on assets, the way the accounting works. The revenues will come in subsequent periods as those assets start really generating fees for us. But it goes back to my response on impairment; the impairment models will pick up the anticipated impairment earlier as well, so zero balance transfers is exactly one of those J curve type things where it's quite expensive to bring them on, but it's quite profitable at the back end and you've got to keep on doing that J curve, and as soon as you stop you can find yourself going down very quickly when you have to reinvest.

Further question

Any thoughts from the FCA about that?

Clarification of intervention

Zero balance transfers?

Michael Helsby

Others have been saying they don't like the product, are the FCA happy?

Answer:

I haven't spoken to Val recently, specifically on that. We have, as you can imagine in these days, spent an awful lot of time looking at product suitability with an FCA lens, more than we've ever done before, and that's not just zero balance transfer, that's anything that we do in packaged accounts or anything that's beyond the most simplest product that we have. It's a business that, I think, still continues to work with FCA support, but I can assure you, those guys spend so much time with the FCA these days on making sure that every product that's being brought onto the books and designed is something that makes sense from their perspective as well so it is quite a high degree of caution. Not just for us but even the industry generally there's a high degree of caution so we're definitely going in eyes wide open on this stuff.

Question 13

David Lock, Deutsche Bank

Just two quick ones, first one, on risk-adjusted margins. You mentioned earlier that you think margins are heading upwards or, at least, are proving resilient in a number of your products. I wanted to focus particularly on personal loans. Clearly Barclaycard is doing really well, but when we look at the personal loan market, it's pretty competitive out there and you've really cut your rates veryhard recently. Just wondering how sustainable you think the margins are at these levels; you're getting four percent rates for five years now on unsecured, so the sustainability of that?

The second one is on interchange capping for Barclaycard. In the past, I think, Barclays has said, you see this as more of an opportunity than a threat, I just wondered if you could detail the thinking behind that, is that because you've got a lot of merchant acquiring business in the UK? Or you've got a European network, just wondered what your thoughts were around that, thank you.

Answer

Yes, in personal lending margins have definitely come down. The credit environment is reasonably good at the moment and that influences pricing to some extent. The most interesting with personal lending for us is we're getting much better at making credit decisions around personal loan and that gives us more confidence around pricing, and I imagine for the industry as well. We've become very focussed on pre-approving personal credit lending and is working very well for us. I'll give you a true story that happened, with one of our employees. It's to do with mobile banking and it shows how effective this thing will be and is being.

We may be one of the few banks; I don't know if there are others that will pre-approve personal lending lines. People can draw down on those and take that personal loan through their mobile banking app. So if you are banking at Barclays, and you're a customer with a current account, and we know your credit, we know who you were, we know what you do, we could pre-approve you. This true story was an employee of ours who had that; she was buying a car in a dealer's show room and the salesperson said "would you like financing to go with that? I've noticed you've taken financing before." She said "yes, what sort of rate and terms do you offer?"

So, the guy went back, spoke to his manager and came back with quite a high rate, and our employee went on to her Barclays mobile banking app, saw that she was pre-approved for a loan for a certain amount and said "well, I've got this at 'x' rate", and five taps later the money was in her account and she was driving out with a car. So that's why it's working very well for us. It's knowing the deep customer relationships we have pre-approved and then making it very easy for that transaction to take place.

And pricing follows our comfort in really knowing who we're lending this money to, and of course, making the transaction easier in the personal car show-room, the guy comes back with a binder full of paper-based forms and money laundering check and "who are you" and "what's your income"; you just spend years trying. So that's actually worked very well for us; our share of personal lending isn't so much driven by price, I think, it's as much driven by the efficacy of how we extend credit and make that experience quite easy and helpful.

In terms of interchange, it's a good question. So in merchant acquiring we're very significant in the UK, not at all significant outside the UK in Europe. Now interchange fees both domestic and cross-border, being capped is a head wind - we're all going to receive less interchange than we would have done in years gone by from a customer in Spain using their Barclaycard.

We'll figure out our growth areas elsewhere to offset that headwind, and have done. But the opportunity for us is that the interchange business that we're not in in Europe potentially gets re-priced or, because the structural revenues have changed through the pricing caps, does that present an opportunity for us to get into the merchant acquiring business in Europe where we're not today. So it's an opportunity. It's not that we're going to sign a big deal and buy a whole bunch of merchant acquiring and we're going to announce it anytime soon. The entry point for that business re-prices, and that's the opportunity that we're quite intrigued about and excited about.

Further question

Is it an advantage being on both sides of the transactions?

Answer

We don't have every card in every country. We've got about a third of the merchant acquiring and we have 30 million card customers but not everybody uses it. Just because they've got a Barclaycard doesn't mean it's in use. A proportion of them will be, so yes, where we've got both sides of a transaction, it's not a problem, but there are many cases where we have one side, but it's very manageable, I don't want to underestimate the issue, but I definitely don't want to over blow it either; it's very manageable in terms of how the income impacts on us.

Question 14

Chris Manners, Morgan Stanley

I had three questions if I may. The first one was, do you have any initial thought on the stress test? I guess you're going through an EBA process and a Bank of England process; how's that going? Secondly, on the dividend, you want to get the book value up, we want to get the capital ratios up, I think, we'd all like to see that as well. What's the rationale for paying out the dividend at the level you're paying it? Consensus has quite strong earnings growth in the next few years, which would mean the dividend would start to hike up quite a lot; why have you got this quite high pay out ratio when I think a lot of people would like to see the capital build first? And the third one was if you could give us a little bit of colour on what's happening in the UK retail business? It was a little bit disappointing to see the disclosure get collapsed on that business; what's happening there? Thanks.

Answer

On the stress test, both the EBA and PRA, obviously we've submitted our data across the scenarios and our results across to both bodies. As you guys know, the EBA, I think, will come back in the next few weeks. The PRA will come back hopefully by year-end. All of that's less defined at the moment. At this stage, I think, we'll do okay on those stress tests. We do run, and I'm sure a lot of other banks do, fairly detailed and frequent stress tests for ourselves, and have been running for a number of years. The first thing we look at, of course, when we get the scenarios from any regulatory bodies, is how they compare to our own internal stresses. No two stress tests are going to be the same, but they've benchmarked reasonably well so we knew going into them that we should be in reasonable shape and we shouldn't see anything overly concerning.

The EBA and PRA stress tests are quite different so you can't read across from one to the other unfortunately. As you guys know the EBA is a static test and with transitional rules and the PRA's is dynamic. The PRA will also have a bunch of qualitative features along with it. So you may pass a numerical test, but it may be more like CCAR - there's qualitative components to it which may result in actions, or it may not. That's a journey that we'll see how it plays out, but at this stage, we've had some feedback and we'll see what the results are. But it's so far so good.

On dividend versus capital, I think that the philosophy of the company is that we want to be a dividend payer; we'd like to be a progressive dividend payer. Obviously that's depending on our earnings trajectory and we've tried to be as clear as we can that somewhere between 40% and 50% of adjusted earnings will be our payout ratio, and we'll see how that goes through the passage of time. I think you're right in saying that there is trade off here between accelerating our capital build and continuing to pay a dividend, but it's a decision that the board's made; a decision the board's very committed to, I think.

I'm quite proud of the fact that Barclays is one of the few banks that continued to pay a dividend through very dark days. Coming into this role knowing that the company wants to pay a dividend, it does create a level of financial prudence around anything we do. It's an interesting discipline and I sense regulators quite like the discipline of dividends as well. So I think we'll continue to aspire to be a good dividend payer and we'll continue to pay in that band, probably the low end of that band because we do want to prioritise capital accretion above dividend accretion at the moment, but over time we'll see how that plays out.

UK retail, what's going on there. I can tell you it's still a good business, we're still seeing reasonable mortgage production, our mortgage market share, I mentioned earlier, is holding up well. We're still, as a company, towards the more conservative end of credit extension, be it unsecured or secured. So we're at the prime end of lending; that's worked out well for us. Credit is still quite benign, we're not really seeing a pick up in there. We did see a lull in mortgage activity with the MMR coming in that is still being digested through the system so we're seeing activity pick up after that initial lull.

Our current account market share, our personal lending market share, our small business; it's holding up well and it continues to be a good business. I think the big objective is we have good market share. We have good characteristics. We're somewhat indexed to the UK economy; it's, possibly even dangerous to grow too much quicker than the UK economy. We'd probably end up getting into sectors and segments which are not our thing and we'd probably make some mistakes. So in terms of increased profitability, and some top line growth, indexed to the UK economy. A lot comes through automation and efficiencies. Ashok Vaswani is speaking at the Bank of America conference at the send of September. You'll probably hear him talk a lot about some of the stuff that he's doing on the automation journey. There's a lot of really exciting stuff that you'll see launched. We launched a new product in our small businesses if anyone gets the opportunity to see what small business customers get. We haven't launched an advertising campaign, we'll see how it's received, but there's lots of good, really cool product launches that are, we think, differentiating for ourselves in those areas. So, it's a good business, and we still feel pretty good about it.

Further question

Might you be able to say something about the margins in the UK retail business, where they're trending, asset spreads, etc?

Further answer

Yes, they're, for us at least, hovering around where they were in the first half; not a big difference.

Question 15

Anish Lakhani, Jefferies

Just three questions. Firstly, what are the current issues that you see the PRA is focussed on? By that I mean things like, are they focussed on commercial property, emerging market risks, mortgage risk weightings, that sort of stuff. Is there any feeling you have on that side? Secondly, I know you've discussed the CET1 ratio, but how about the overall capital stack. Is there any more clarity on where Pillar 2B might come out, and where the whole stack ends up? And, thirdly, given how high the Spanish banks have been trading, I was a little bit surprised with regards to the actual price for the disposal of the Spanish business, given management comments earlier in the year that the Non-Core would be managed more for value than for anything else. Has this changed or are you coming under pressure vis-à-vis capital from the PRA?

Answer

Good question. So, on the PRA, this is from my perspective, obviously you'd need to ask them to get the exact list, but I think the stress test tells you that they're certainly interested in commercial real estate - they're doing a 35/30% draw-down on commercial real estate prices, a 35% draw-down on residential, so they're obviously quite focussed on the impact that'll have on UK banks. We have a close and continuous dialogue and we talk a lot about capital, we talk a lot about liquidity, we talk a lot about stress testing, we talk a lot about all the things you would expect us to do. I'm not sure I'd call out that there was any one thing that feels front and foremost on their minds. Probably the only thing I would call out is there's a lot of work through the stress testing on real estate levels, and we talk a lot about mortgage affordability, we talk a lot about interest rate scenarios, a lot about if there's a sterling depreciation. Obviously that's in the stress test as well, a large sterling depreciation, so all the things you would expect, I'm not sure there's any one thing that stands out. Emerging markets is probably less of a talking point for us but maybe some of the Asian banks that are in the UK probably have a better dialogue with them on that than we would. So I'm not sure I'd call out anything in particular. We had Andrew Bailey attend our board meeting, as he always does every year in April, where he gives us an update of what's on his mind and those are very, very constructive discussions, so I'm not sure there's any one particular thing I'd call out; it's a whole range of issues, all of which you'd probably expect us to be talking to them about in close, frequent detail.

The capital stack, any more clarity on that? For us Pillar 2B is an annual assessment; we've been doing stress tests and strike Pillar 2B every year for a number of years now. That will just be something that we'll go through again this time around. I'm not sure there's any new news around that.

Our CET1 stack at the end state of 10.4%, with current Pillar 2A levels, that's what we disclosed at the full year results in 2013. We will be notified as probably all UK banks wil of revised Pillar 2A and Pillar 2B levels by the end of the year. We'd like to disclose Pillar 2A as we did last year. We'll continue to try and do that with the agreement of the PRA. Now, Pillar 2B isn't disclosed, I don't think any UK banks are in a position, or are allowed, to disclose Pillar 2B. I'm not sure that's as binding though at the moment anyway, so it's probably less relevant. For us a focus on 11%; or greater than 11% CET1 continues to be what we're striving towards, and to try and get there as soon as we can, but anticipating we'll get there in 2016.

The Spanish business, and the loss on disposal, it's about 4p of book value. We are prioritising and preserving as much capital as we can as we run down Non-Core, so don't take that as any change in intent in terms of a different view of how we want to manage capital as we go through this journey, but that particular deal had a number of very good things for us. It was a deal that makes sense for us on so many levels. First of all, it is capital accretive, that's really important for us, and it's about 12 basis points of capital accretion, that's very valuable for us. We're still in single digits in CET1 levels, so getting to double digits was very important.

There's other things that are, perhaps, harder to put a number on but are also incredibly valuable. Like management bandwidth; having to remotely manage an operating business. This business has 2,500 employees, it's over 200 branches, and the management time that gets sucked up in managing that business is worth a lot, and not having to manage it allows you to direct your energies elsewhere. Thirdly we're running a commercial organisation here and when you're putting a commercial organisation into a Non-Core unit, you've got to keep everybody together, keep everybody motivated, make them feel as good about the future as you can, and that's a bit of management bandwidth, a lot of energy and franchise management which goes into that, so it's worth a lot to us to allow that energy to be channelled into managing other parts of the company as well.

So, on all of those levels, we felt strongly it was worth 4p of book value, but that's not an indicator of necessarily that we'll be doing those kind of things all the time. We did run a full process around that with multiple rounds and multiple bids, so the clearing price is the clearing price; and it's a loss. The final thing I would say, actually, it is a loss-making business, so it's ROE accretive instantaneously and capital accretive instantaneously. We felt it was a compelling deal to get done. Of course we'd love to do it at a better price but I think the risks of holding out and waiting for a better price versus the management time and effort and commercial risks of running banks in the context of the European economy, meant we just felt this deal was compelling on so many levels.

Question 16

James Chappell, Berenberg

Two, if I may, just on the investment bank. The first thing was to ask if you could comment a bit more about expectations of revenues in the second half. I know your former employer has commented; they're budgeting for a 15% decline, year on year, in the second half. Your previous comments on July being the weakest month, it probably is the weakest month most years, I would imagine, particularly over the first seven months of the year, so maybe a bit more colour around July, August and what you're planning. The second question was, I would like to invite you to make a bit more comment, you said you'd love to have the scope to reduce infrastructure within the IB, does this imply you see it as inferior to your former employer, or what did you really mean by that comment?

Answer

Yes, no problem. Oddly enough, July hasn't always been the slowest month of the year. Certainly last year it wasn't and probably the year before also. But I take your point; it is the third quarter and that typically does exhibit some form of slow down. You're not going to learn a whole load of new things from me, unfortunately, on this one; I think the second half will almost certainly be lower than the first half, it probably is every single year in the history of investment banking. So I'm not sure there's any insightful comment there, I'm not sure JP Morgan telling you that is hugely enlightening.

Further question, James Chappell

They were talking about the second half year on year.

Further answer

Okay, I hadn't picked up on that. Tom King's actually speaking at our own conference on Monday in New York, so I'm not sure whether you guys want to follow that but he'll be covering just the investment bank, obviously, at that conference. So I'm going to let him talk a lot more about investment banking trends and Barclays, so I'd urge you guys to either read that transcript or dial in. I think he may provide a bit more colour for you there.

I think, in terms of infrastructure, well, I could probably take that one. Yes, in no way was that a value judgement on inferiority, it's just efficiencies. Investment banking revenues, everywhere you see it, have stayed steady and probably drifted down over time. For us making sure that our infrastructure is as efficient and productive as possible and as effective as possible is really all I'm after here. So it's not a value judgement on an inferior or superior position. To be honest, some things are better, some things are worse, as you'd expect. It's more about just efficiencies. We could be more efficient in our investment bank and we have an opportunity there and other banks will have their own views on their own efficiency measures. I think we could be more efficient.

Question 17

Chintan Joshi, Nomura

Where you are in the search for your next Chairman?

Answer

Can I update you on the search for the next Chairman? If I update you on the next Chairman, I'll be putting an RNS out tonight, so, no. We're searching, and I can't give you any information now, sorry.

Further question

Do have some idea of timelines?

Further answer

David Walker said he will do three years, his three years will be up next year and my guess is he'll probably do the AGM and then we'll have a managed rotation, but I'm not going to give you anything more than that.

Question 18

Michael Helsby, BAML

I think the PRA stress test process encountered a problem in litigation, and I believe they're now adding that now.

Answer

Yes, it's included, so we've been in pretty close dialogue about what our conduct litigation forecast estimate should be under the stress scenarios. So we've submitted our numbers in conjunction with them but they obviously have taken a view that that's still not enough and we need to do more, like every regulatory body. We'll find out in time but it's an issue they're familiar with.

Further question

Do you think they'll publish the results?

Further answer

I don't know. They haven't said what they're going to publish and I don't even know, to be honest, whether they're minded at this stage to publish bank by bank or just for the industry. I have asked several times and I think they've got some mixed views I suspect. We did make sure that, in dialogue with the PRA, the conduct estimates, litigation estimates that we put in for the PRA stress and the EBA stress, were on the same framework, same basis, even though the stresses are actually different ones; dynamic ones. So we've spent quite a bit of time with the PRA on that.

Closing remarks

I'll let you guys get back then. Thanks very much, and do send feedback back to Charlie Rozes if this is helpful, and if we're going to do this again, anything else you'd like us to do. Thanks.

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