

**H1 Results 2012****Question & Answer Session****Marcus Agius**

I am sure you will have questions but let me, first, address the following point which I know is of interest. The Board is focused in its efforts to find a new Chief Executive and to find a replacement for me as Chairman. Both of these processes are already well under way but our intention is to identify a new Chairman first, as it is important for an incoming CEO to know who that will be. Above all, we are conscious of the need to move quickly and assuredly but it is also vital that our stakeholders are convinced by the rigour of the search and so are confident that we have selected the best candidate. I will, of course, update you on progress when it is appropriate to do so. With that wonderful extra bit, I am going to start the Q&A and because as I imagine that most of the questions are going to be about numbers, I shall ask Chris to chair this part of the session, thank you.

**Chris Lucas**

Thank you very much, over to you.

**Question 1****Andrew Coombs, Citigroup**

Good morning, I have two, actually three questions please. One on the investment bank, one on UK retail and just one on your slides on your European businesses.

Firstly, with regards to the investment bank, I would just like to drill down to the fixed income result: down 18% Q-on-Q. Your peers appear closer to down 40%, so I am just interested to know what products are driving that. I know you make a reference to rates and commodities but if you could perhaps expand a bit on that and also how sustainable you think that improvement is relative to the wider peer group in terms of market share gain?

**Chris Lucas**

Andrew, good morning. Can I just ask Rich to give you a bit of colour on that question?

**Answer: Rich Ricci**

Good morning, Andrew. It was a good quarter for us. I think we did mention rates and commodities and I shall give you more detail in a moment. Clearly, it has been volume driven, we continue to take share. We were joint No.1 in terms of market share this year again, and it is slightly offset by some decrease in structured products. But, it is fairly widespread across the spectrum of products, it's really driven by volumes and some renewed investor confidence. I do believe it is sustainable, I think the way we have built up our fixed business over the years and the fact it's flow driven is helping and it has been a good quarter and half.

**Chris Lucas**

Andrew, your second part of the question?

**Further question**

I shall put the second and third parts together as they are both fairly short. The second question is on the one-off provision release in the UK retail business that you referenced, perhaps you could quantify that? And then the final question, you talked about a funding mismatch in Spain of £2.5 billion and in Portugal of £3.7 billion. Perhaps you could quantify the funding mismatch in Italy as well for us please?

**Chris Lucas**

I am not sure there is a major provision release in the UK retail bank. There is certainly some improvement on impairment in the unsecured business and I'll ask Robert to mention that.

**Answer: Robert Le Blanc**

Let me just quickly look at that. You are right to notice that the UK retail bank impairment in this half is down significantly from last year and from the second half of last year. There is no large single release, there are always adjustments we make when we look at models so during this half, we looked at LGD or loan severity and made adjustments to that. There has been some operational improvement in some of the processes that gives us a different impairment outlook. So, listen, bottom line here is very good impairment for the first half. Impairment will be naturally higher in the second half for us in the retail bank this year, but lower than it was last year in the second half, so the positive trends in retail bank will continue and it is a stable credit environment in the retail bank.

**Chris Lucas**

Robert, can you touch on redenomination risk and the gap in Italy?

## **Answer: Robert Le Blanc**

Certainly. I mean listen, when we look at redenomination risk around Europe in general, remember before we get into that that our Western Europe businesses are, for the most part, a set of conservative mortgage portfolios and although the credit performance of course has been affected by the environment, those mortgage books have good asset quality and good impairment coverage and there is a bit more information you'll notice in the Appendix that describes Italy, Spain and Portugal and the composition and sectors for the mortgage book. I hope that will be somewhat helpful. We do have a commercial lending business which is much smaller and, as Chris mentioned, we have very good impairment coverage there, with impairment declining on commercial property lending in Spain over the past couple of years.

For broader Eurozone risks, you know we have conducted a lot of stress tests since the beginning of 2010, both internal stress tests and regulatory stress tests. From all of them, we have had satisfactory results from an income point of view, from a balance sheet point of view, from a capital point of view and as Chris mentioned, in the first half of this year, we have reduced redenomination risk principally in Spain and Portugal where we focused, and the numbers are in the results: from about 12 billion to 2.5 billion of net funding into Spain and from about 7 billion to about 3.5 or 3.7 billion in Portugal. We achieve that mostly by doing about €8 billion of LTROs through the local central banks as part of the ECB programme. We have also been reducing assets both in terms of what has been originated and through some AFS asset sales, and we have raised more liabilities locally, principally in Spain, where we have brought on about £3 billion of additional local wholesale deposits. So overall, I think there has been a pretty substantial reduction in the redenomination risk in Portugal and in Spain and we have got to focus now on looking at Italy, but we wanted to try to address Spain and Portugal earlier.

### **Further question**

Okay, thank you. Perhaps you could just share what the deposits are in Italy. That would be useful, thank you.

### **Robert Le Blanc**

The increased deposits in Italy or in Spain? I am not sure.

### **Andrew Coombs**

I am so sorry, in Italy, what the deposit figure is. Because you provide very good disclosure on the loan side of the book but perhaps we could have a deposit figure?

### **Answer: Chris Lucas**

I am not sure we have disclosed that number, and I am looking around the room, and there are a number of blank looks. Let us take that one away and, if we have disclosed it, we will come back to you.

### **Andrew Coombs**

Right, that is very helpful. Thank you.

### **Question 2**

### **Michael Helsby, Merrill Lynch**

Good morning, everyone. I am just looking at the cost performance which is clearly very strong, Chris. And it looks like behind it, there was a reduction in the comp ratio as well as the non-performance costs. The comp ratio was overall 33% versus 37%: is that a reflection of you just not having done your bonus accruals properly yet, or is that a reflection of a bit of a step change that we can think of and carry forwards? And I've got a completely unrelated question on the hedge revenues.

**Answer: Chris Lucas**

Let me answer that, and then we will deal with hedge revenues. The movement you have seen is not because we have not done our accruals properly: if anything, we have done our accruals with more rigour than we normally do, because we have given you more granular disclosure. What we have seen in terms of where we have set the provisions and accruals is the view that there is a step change that has taken place, and the sorts of levels you see are exactly what we are saying when we say that we pay for performance. We have worked to start to move the allocation of returns from stakeholders to other stakeholders, which is very much what we said we would do at the AGM. And what you have seen in these numbers is that being put into practice.

**Answer: Marcus Agius**

If I could come in on that, this was an area of great debate around the time of the AGM and shareholders have quite rightly been pressing for a greater share of the cake as compared with employees. We obviously understand that and we have listened to that but, at the same time, as we observed then, there is a limit to the rate at which you can do that. What you have seen here is further progress.

**Further question**

Okay, so I should take it as this is, as you say, a step change that we can think about as going forward. That's good.

Secondly, clearly the hedge revenue historically has been quite a topic of debate. I note that it is down again quite a lot in the first half. I was wondering whether you could comment on whether there are any gilt gains in that hedge revenue in the first half of £689 million? And if you could you just give us an idea on what the amortisation rate you would expect for that in the second half and then, if you can, excluding any more disposals, what it might be for next year?

**Answer: Chris Lucas**

I can confirm that there is no abnormal non-recurring gilts gain in those numbers. What you can see is very much the pure numbers as the hedges continue to generate about £800 million contribution in the first half. That is going to continue to decay and you can expect to see it falling off as we continue into the second half. I am not going to give you a profit forecast in relation to that for the future. What I think you've got in the results is a pretty clean view of the amortisation over the first half.

**Michael Helsby**

Ok thanks a lot, thank you guys.

**Question 3**

**John-Paul Crutchley, UBS**

Good morning. I have two questions, or if I may perhaps three questions if I can. The first is to Rich, and then can I have two follow-ups with Chris.

Rich, I guess now where you are headed as the sole head of the IB – when you look at the performance, the story that we've been expecting to hear over a period of time was one where the group had become more balanced, less dependent on FICC and the equities and the investment banking business would very much pick up the slack there, and you would end up with a more balanced three-legged stool I guess. As you look at the performance I mean, clearly it's still very dominated by FICC, the supplies to earnings coming from FICC and the other two legs do not really look as though they are stepping up and moving forward. I know that there is difficult markets and all the rest of it. I guess that now that you have sole charge of the IB, how are you looking at the business going forward? Do you see any need for a sort of radical rethink about implementation or execution of the strategy? Is it right to refocus on the things that you clearly excel at, and de-emphasise others where you don't seem to be moving up the pace? I just wondered whether you could comment on that, and then I have another question for Chris afterwards.

## **Answer: Rich Ricci**

Okay, thanks JP. First of all I think that you are right about tough markets but I would point to the stats that Chris read out about the progress we are making in ECM and in investment banking you know in terms of taking share and I suppose we will only see how good we are when markets come back but, we are very confident that the investment we have made is paying off in that share gain.

I also look at things like we are number one now in the UK in M&A, we are number three in the United States in M&A; again, difficult markets but I think that because we chose to build when we did on the back of the big Lehman's franchise people are willing to listen to a different voice and I am very pleased at the development of those franchises.

I look at our corporate brokerage mandates here in the UK we started at zero in 2010 and we are now at 30. I mean, no-one is even close to the net gains we have had so I feel good about it. We always look to be as efficient as we can be in terms of how we execute our services and products; yes, absolutely but in my planning a big size and scale reduction or any of these big headcount reductions we are seeing in other houses, no. We have been in front of that and we are pleased with the investment we are making, we are pleased at the way they are performing.

## **Chris Lucas**

JP, you had a second question.

## **Further question**

These are two questions for you, Chris. The first was I think something hangs on the pension fund because I saw there was a hit to Core Tier 1 on that and I just wondered if you could just comment around that.

And the second one was just on the liquidity portfolio which is clearly very large now and obviously there appears to be an element of a wind of change in terms of regulatory attitudes towards that and I wondered if you could envision that portfolio actually reducing over time as opposed to growing as it has been in this quarter?

**Answer: Chris Lucas**

Let me try and answer that. The pension is the payment we made for the deficit reduction which is part of what the agreement was with the Trustees at the completion of the last per annual valuation. The impact of that has flowed through Core Tier 1 and that is part of the reason that the Core Tier 1 growth looks fairly low.

I think there is not much more to say than that.

**Further question**

What was the actual reduction from that Chris? Probably in the statement the houses haven't found it yet. What was the Core Tier 1 impact?

**Answer: Chris Lucas**

The Core Tier impact was I think about 20 basis points. In terms of the liquidity portfolio we manage it quite carefully. We think it's at the right sort of level. I am fairly relaxed as to whether it is at £170 billion or £150 billion so it is in the sort of area that we like to have it.

There is quite a bit of active management obviously as we look at what we can do to minimise the cost of it, but the key thing from our perspective is it has to be a liquidity pool rather than a pool that generates a return so we look at the liquidity of it first and then look to see how we can minimise the cost of carry but it is in the sort of region that you would expect, or I would expect.

## Question 4

**Tom Rayner, Exane BNP Paribas**

Good morning everybody. I just have a couple of questions, please, maybe the first one for Marcus and the second one for Chris.

Marcus, I saw I think a quote from you on the news wires this morning saying Barclays remains committed to being a leading global universal bank. I just wondered if we can infer from those comments that whoever the new Chief Executive might be he is not going to come in with a mandate to try and split the Group up or make it a much more domestic-focussed operation and I have a second question on margins, please.

**Answer: Marcus Agius**

A very good question, and the reason I gave such a definitive announcement was because that is what we meant to say.

The fact is that in any organisation the strategy is set by the Board. Of course it is promoted and taken to the Board through the Executive, but at the end of the day it is settled by the Board of Directors and the Board of Directors remains fixed on its belief that the global universal banking model is the one that is right for Barclays. So that is not to say that any new Chief Executive coming in won't look at what he has and won't discuss with the Board any ideas he may have but the idea we're not looking for someone to come in and change it.

**Tom Rayner**

Okay. Thank you very much.

**Chris Lucas**

You had a second question as well.

### **Further question**

Yes, it is just back on the margin. When I looked at your margin presentation on Page 35, if I look at first half versus first half it looks like a fairly comfortable progression, customer margins a bit of across the Divisions some going up, some going down but it looks fairly comfortable and the total margin figure over a space of a year looks quite comfortable.

When you compare it to the second half of last year it looks like a much more severe drop and I suspect it really reflects the impact of the gilt sales and how that they fed into the numbers and I was just wondering if you could maybe help clear it up in terms of what you think the ongoing underlying margin pressures are. Does it really reflect the sort of year-on-year comparison or is that first half, second half demonstrating that things might have got a bit tougher in the last six months?

### **Answer: Chris Lucas**

I think, Tom you have pretty much answered the question. The second half was benefited from the gilts gains, so if you look at first half 2012 versus first half 2011 you get a better picture of the underlying margin movement and that I think is down from about 197 basis points to 189, so it gives you the impact of about 8 basis points and half year on half year. We would expect to see the same sort of continuing progression that we saw in first half on the first half.

The one thing this doesn't take account of which is important is volume growth. What we are seeing is the decline in margin being offset by the volume growth that helps at the net interest income level.

### **Tom Rayner**

Thanks very much; very clear answers, thanks.

## Question 5

### **Manus Costello, Autonomous**

Good morning everyone. I have a couple of questions on capital, please; one for Chris and one for Marcus. Chris, in your very helpful new slide about the impact of Basel III I noticed that you have reduced the scale of management actions and mitigation that you are planning. You were previously in the high 40s and you are now talking about 34 billion of mitigation; I wonder if that has come down because you are taking a less aggressive view on tweaking models or why that has changed?

Secondly for Marcus, I noted in the letters which were published by the Treasury Select Committee that in your statement to Adair Turner you were pointing out that there was a guideline capital ratio for Barclays of 10.3% which was demanded at the end of 2011. I wondered, Marcus, how you thought the FPC guidance on capital was evolving for Barclays, whether that 10.3 was likely to be moving up or down in the near-term and as a follow on from that how much buffer you would want to maintain on top of FSA guidance please?

### **Answer: Chris Lucas**

Let me answer the first part and then we will see where we go on the second. The reduction I think in management actions is largely I think because the balance has been delivered and is already included in the numbers. You will know that we had quite a successful implementation of Basel II.5 where we had chosen management actions. Also, the numbers evolve over time as we become more certain in terms of delivery. So, the numbers I have given today are our best estimate of the available management actions that we still have to complete. I think that is a pretty good summary of where we are.

In terms of FSA and ECB guidelines, let me start – the 10.3 was a number that we were working to. The FSA and the European Banking Authority had a 9% number for the stress test and we cleared that comfortably. In terms of where I think we try to operate the group it is somewhere around about 10% and we look at that over a period of time. If it was slightly below that, that would be fine and if it is slightly above it, it would equally be fine, but that is the number we use for planning purposes.

**Answer: Marcus Agius**

If I could make some general comments on the relationship with that part of the regulatory system generally, it is in a state of flux – we are still regulated by the FSA, that is not going to happen for much longer. The FPC is getting up and running, there is going to be I think a new style of regulation and the FPC is probably going to be more judgemental than the FSA. Certainly they will focus on capital, as they should and I think, if I articulate what you have probably heard from them at the moment is that they generally remain concerned, as we all do about the situation in Europe and therefore all things being equal they would prefer more capital than less capital.

**Further question**

Just to interpolate from that, you think the 10.3 therefore is likely to move up, not down obviously?

**Answer: Chris Lucas**

It is round that sort of number.

**Answer: Marcus Agius**

I don't think they are that prescriptive.

**Answer: Chris Lucas**

It is in the right sort of range.

**Manus Costello**

Thank you.

**Question 6**

**Raul Sinha, JP Morgan**

Good morning everybody. Could I have two areas of questioning, please? Firstly could I invite some comments on the impairment outlook for the group overall? I just wanted to check that given the recent events in the Eurozone as well as perhaps some of the GDP data, you are still comfortable with your impairment guidance? And I have two other related questions on liquidity if I may, just after.

**Chris Lucas**

Let me ask Robert to respond on impairment.

**Answer: Robert Le Blanc**

Good morning Raul. You raise some interesting components of that looking at GDP, looking at development in the Eurozone. We look pretty carefully at our portfolio in all our businesses, in all the geographies. The trends in the first half were mixed across the different businesses as you can see. For the second half overall the retail and wholesale trends you have seen will be fairly steady and will continue. Although there will be different changes within individual businesses, overall the total impairment in the second half will look pretty similar to that in the first half, so we shall see continued difficult times in Western Europe, Spain and Portugal, for example. We shall see continued strong performance in US and UK retail banking. We shall see more normal conditions in the investment bank etc but, overall, I would say that the second half looks more or less similar to what we have seen in the first half.

## Further question

Thank you. The second question concerns two sub-areas within that around liquidity. It does appear that the Group is holding liquidity well above what you might expect it to, given comments we have heard recently from the FPC. Your liquidity pool is £170 billion, it looks like it is close to the top end of it. Could I invite you to comment on whether you are consciously holding that while you have the uncertain period ahead of you right now?

The second part of my question on liquidity is that your LCR ratio has come up significantly, it is up to 97% now you say from 82% the previous time you talked about. That is quite a material improvement as far as I can see, so can you talk about what is driving that?

## Answer: Chris Lucas

The two questions are connected as you quite rightly say. At £170 billion we feel that the liquidity pool is in a good place. It may be a bit higher than we would plan but bear in mind that this is not a complete precision exercise. You cannot land a pool of that size on a pinhead, so some of it is altered, for example, by the level of deposits that you receive at the end of the period, which at lunchtime we did not expect to come in but by the evening it has. Therefore, whenever you ask me what sort of level I look at, I always have a range in my mind. While £170 billion is probably at the higher end of the range, that is no problem given the environment in which we operate. If it were slightly lower than that, it would similarly not give me a problem.

As far as the LCR I think, it is very much the numbers as they come out on the system. We report that to you, recognising that it is not, at this current stage, how we run the Group, because it is not yet finalised in form. However, I notice that it is very close to 100% for the net stable funding ratio and the LCR puts us in good place for when they do become binding constraints.

### **Further question**

Thanks, Chris. If I could just follow up. We have started to see the other UK banks reducing their liquidity buffers, which appears to be having a positive impact in various ways on the P&L. Is that something that we can expect from Barclays as well going forward?

**Answer: Chris Lucas**

You could expect that this is at the top end of the range and there may be some downward reduction, but it is very much where I would like it to be.

### **Question 7**

**Chris Manners, Morgan Stanley**

Good morning everyone. I have a couple of questions if possible. The first is one is on UK loan growth and how that is evolving. You are still able to grow in UK retail which is good news, although the growth rate has slowed down a little. I was just trying to work out whether you are going to use the Funding for Lending scheme and how do you see your ability to take share versus system loan growth?

**Chris Lucas**

Can I just stop you there and ask Antony to answer that question before you ask your second one?

**Answer: Antony Jenkins**

Hi, Chris, let me say I am very grateful to you for asking me a question! Let me say, firstly, that I am very pleased with the performance of the retail and business bank in the first half of this year. If you look across the product lines between Barclaycard and the retail bank, we have added a million new accounts in the first half of the year in a very difficult environment.

In general, we are taking share from our competitors in the market, although the market itself is quite subdued, so you will see continued growth in mortgages, continued growth in small business lending at a relatively subdued pace given what is going on in the market. I think you would say the same for corporate lending in the UK. The trend of corporates in being reluctant to borrow and continuing to build cash continues. So, the net of it is that we expect the market to be quite subdued for the foreseeable future in terms of overall growth but we also expect to grow our share disproportionately quicker than the market because of all the very good things we are doing with customers.

Finally, on the Funding for Lending programme, we are very supportive of the Funding for Lending programme and we expect to be a leading participant within it just as we have been the leading participant in the National Loan Guarantee Scheme. And it is also important to us that the benefits of those programmes in financial terms are passed on to customers, and we shall ensure that happens.

### **Further question**

My second question is on deposit margins and how you see the competition there. As far as I can understand, it is jacked up a bit as people are trying to rebalance LDRs. Also not only on the competition side, but the flattening of the yield curve and how that is impacting those deposit margins? Thanks.

### **Answer: Antony Jenkins**

Again, Chris, we have been very pleased with our performance in the savings market this year: of those million accounts, 400,000 of them were new savings accounts. We have been able to do it by putting out products which really work for customers, so not teaser rates that then fall off a cliff at the end of the intro period. We will continue to be competitive.

We have seen a little more interest in liabilities in the UK markets, but we continue to do very well in terms of share and I expect us to do so in the future.

**Chris Manners**

Thank you.

## **Question 8**

**Chintan Joshi, Nomura**

Good morning. I have got one question on ICB and a couple of quick ones.

On ICB, one of your competitors seems to be keen to speed up ring-fencing. Would you consider something similar?

Related to ICB, the regulators say that the cost of it will be £4–7 billion, UKFI have given a figure of £6–9 billion of impact on their investments. How much do you think this number is for Barclays?

**Answer: Chris Lucas**

I will answer the question and then ask Marcus to comment on the position with the ICB. I think the £4–7 billion was the total from the UK banking sector of the expected impact of the ICB. I think we also said that, within that, Barclays would be over £1 billion and we haven't really re-worked the numbers and so those remain appropriate and our best estimate.

**Answer: Marcus Agius**

In terms of the ICB, it is work in progress and the final shape of it is not clear, but we are working very hard with the system. As things become clearer, we will keep you informed.

**Answer: Chris Lucas**

Do I think we are trying to speed up the project, no, but there is plenty of work going on to get prepared? Yes, absolutely.

**Further question**

Perhaps I could follow up on some comments that Marcus made. I just want to clarify, at what stage are you in the appointment of the new Chairman/CEO process? Have you formally interviewed any candidates, or are you still in the process of shortlisting them?

**Answer: Marcus Agius**

I am not going to get into that much detail but I will just repeat the general policy which we are following, which is what I call the 'Goldilocks' policy – in other words, not too fast nor too slow. In situations like the one we are in, it is very tempting to find a quick solution for obvious reasons but, invariably, that is the wrong thing to do, because you need to make a very careful choice. These are two very important positions and they need to be filled by people who have absolute credibility and who can be seen by the external world as being the right people for the job. That will take as long as it takes but, having said that, we are moving as fast as we sensibly can. I am sorry to be so vague but, when we have something to tell you, we will tell you.

**Further question**

Thanks. Chris, just on the redress supervision for interest rate hedges, what is the basis of calculating that, and what would change that basis?

## **Answer: Chris Lucas**

Thank you. The £450 million that we have booked really breaks down into two parts. It breaks down into the redress estimate of about £350 million and that is based on our initial assessment of the cost of responding to the FSA and the bank's agreed work plan. It is an early estimate and it is our best number but, obviously, there is a degree of latitude around it. The balance of £100 million is due to an accounting requirement, which in effect values the new loans we put on the book at the current credit spread. That creates an immediate loss as you enter into the transactions, which amortises over the life of the loan. The £450 million is best thought of as £350 million redress and £100 million credit spread adjustment that reverses over the life. We have recorded it as £450 million but you could recognise the net number as £350 million.

## **Chintan Joshi**

Thank you.

## **Question 9**

### **Jon Kirk, Redburn**

Good morning, everyone. I have two areas of questioning, the first being back on currency redenomination risk. Thank you very much for the disclosures you have given on that, which are very useful. Could I just check your attitude really to reducing those exposures further and, in particular, if you could explain why you didn't take more LTRO funding, for example, which would have been a quick and easy way and, I guess, cheap way of cutting that local mismatch. Also, if you are planning to cut it further, by what means will it happen? Is it asset reduction, or is it issuance of local funding of one sort or another.

My second question is really a big picture one. After the loss of the senior management in the firm, how do you ensure that the business continues to motor along? In particular, we are getting questions coming in about how resilient certain franchises within the bank – and particularly within the investment bank – will be in the absence of senior management and perhaps therefore clarity of strategy. Could you just address that as well? Thank you.

**Chris Lucas**

I will ask Robert to touch on redenomination risk as we look forward, and then Marcus is best suited to answer your second of your questions.

**Answer: Robert Le Blanc**

Thanks, and good morning. We are going to be looking at all the possible asset and viability accommodation to address the redenomination exposure. On the asset side we are being careful anyway from a conservative risk appetite point of view about the type and rate of asset origination in our mortgage and commercial books in Western Europe and so that will have some effect and we are also looking at ways, and have been successful in ways to sell some of our available for sale assets over time into the right market conditions.

On the funding side we will continue to pick up deposits. Some will be wholesale and to some degree we will be able to pick up retail, although as you are aware, that has become more expensive and more difficult to do over time.

We are also planning to use greater central bank funding against local assets. In other words, basically using mortgages as collateral for central bank funding in the different countries and I think we will focus on Italy in the second half.

You asked the question of how we chose how much to do in LTRO last time. I would say we were comfortable with the £8 billion we did. There were a number of reasons, none of them particularly spectacular or unique but we think it was a good balance there and left us in a good position and so I think going forward you would expect us to see some focus on Italy and using more of our assets on that basis.

Just to touch back on the question that came out very early in the call today about deposit base in Italy, I am not aware that we break out those numbers, but what I would say simply to help answer that question if I may is that when you think about how we will be increasing funding locally in those markets, think of us as doing more asset-based financing in Western Europe rather than pure retail deposits. It is very difficult to increase retail deposits in this market by substantial volumes in a short period of time so think of our strategy as more asset-based.

#### **Further question**

Sorry, do you mind if I just follow-up? Is it your intention really to take those mis-matches down to zero ultimately?

#### **Answer: Robert Le Blanc**

We don't have a purely zero target. I think we want to manage these things within a risk appetite. You know, when you look at those notional exposure numbers, those are the numbers you have seen, those are not profit at risk numbers; those are notional exposure numbers, you would consider some fraction of those to be your risk in the event of a break-up of the Euro or an exit of the Euro and we have some risk appetite around that, given the probability of those events as you can imagine. So we don't have a clear zero target. We said we want to manage it on a cost and benefit basis, on a dynamic basis.

### **Answer: Marcus Agius**

Okay so on the question of the health of the business, a very important question and we can take a little time to answer it because it is so important. In a moment I am going to ask Rich and Anthony and Tom Kalaris to talk in terms about their own business and what they are seeing but I will start by making an absolutely crucial general point which is typically when you see companies in crisis, and particularly when they are looking for a new Chief Executive, a new Chief Executive is coming in to fix a broken business.

We are in exactly the opposite situation. You can see from these figures, our business is not only ruddy with health; it is doing well, and not only is that the case but the people who have driven those results are sitting round the table with me today. So from that point of view we feel comfortable. It doesn't mean we are going to drag the search for the new incoming Chief Executive and Chairman. We are not. As I said earlier, we will do that as fast as makes sense to get the right quality person, but it is vital to reassure people that this is a great business and from that point of view I am actually looking forward to some of the interviews that we are going to have with the potential Chief Executive candidates because anyone who doesn't have the wit to realise what a great opportunity this is shouldn't be in that list.

Anyway, with those general comments let me start with you, Rich and then Tom and then Anthony just to give some colour to what it feels like.

### **Answer: Rich Ricci**

Thanks, Marcus. Hi Jon. First I would point out that not all the senior management has left the Investment Bank. I am still here, as well as our Executive Committee in the Investment Bank is still there.

I think from a business and franchise perspective our clients have been incredibly supportive. Our pipeline is at an all-time high and we recognise that there is reputational damage done and we have got some work to do in helping to repair that. We have announced some initiatives internally around looking at our businesses with a reputational lens, looking at our rewards and the valuation process to make sure that we are incenting the right behaviours. We are also looking at a business practices review all dovetailed with the work that the Board is leading and Anthony Salz is leading, but the franchise is actually in good health. I think that, as I said, clients have been incredibly resilient. You can see by the performance of the business it has been very good and as I mentioned, the pipeline is very strong.

On the corporate bank, which has a large majority of our clients here in the UK; we've touched 92% of our clients, 1% of them have had some issues, whether it be redress or issues with us on or complaints around the Libor situation but again remains very supportive and we are also taking market share there. So I am not worried about the overall health of the franchise. I think we have got other things to worry about – regulatory environment, Europe, but I am not worried about the health of the franchise.

**Answer: Tom Kalaris**

I won't repeat what Richard said other than to reinforce that we had the same experience in Wealth Management and frankly, as you know, we have a clear and well articulated game plan to reposition the business.

You are seeing the results in the asset growth, you see the results in the deposit growth so from our perspective the numbers speak for themselves. We are quite pleased about where the franchise is and where it is going.

### **Answer: Antony Jenkins**

And from the RBB perspective, as I have mentioned before, we have seen a very strong financial performance in our two big businesses, Barclaycard and the retail bank, but also equally gratifying as a result of the emphasis we have been placing on the customer in the last two and a half years we have seen very strong growth in the underlying drivers of the business.

In terms of the impact of the recent events on how customers are feeling. It is true to say that a small number of customers have been disappointed and frustrated in Barclays, but we have seen no large scale movement of accounts, nor have we seen any decline in the rate at which we have been booking new business. The franchise is very strong. The management team of RBB and the colleagues within it are committed to Barclays and committed to continue to serve our customers.

### **Marcus Agius**

It is worth taking a length of time because it is a very obvious and important question and I hope you are satisfied with the answer.

### **Jon Kirk**

Yes, thanks for that.

### **Chris Lucas**

Let's have the next question.

## Question 10

**Ian Gordon, Investec**

Good morning. One quick follow-up on Spain, please. You explained earlier the substantial fall in the incremental impairment within corporate. Just on the retail side obviously we can see that the impairment charge has picked up a little bit, but looking at the additional disclosures, which Robert mentioned earlier, in terms of arrears, if I am reading the data right, there has been no deterioration at all in Italy; in Spain, 0.7% in 90 days plus arrears is still a very low number. Indeed, even looking at your disclosures for forbearance, the increase on forbearance in the first half, even in Spain, which you have pulled out in your comments, doesn't seem to be material to me. Is the explanation for your differentiated performance just simply the different geographic profile and the different behavioural profile coming from your avoidance of the ex-pat community, or is it something much more fundamental than that?

**Answer: Robert Le Blanc**

It is broadly those things and I do think those things are actually very fundamental. The four factors I think of when I think of the quality of a mortgage book in a place like Spain, one would be very simply the channel – how much do we originate ourselves through branches versus how much through third parties or brokers? The business we originate ourselves, which is the vast majority of what we do is always safer and better business. There is, of course, also the location within Spain and you will see from the appendix – basically if you think of Madrid, Barcelona and Valencia that is more than 50% of our business; it is a very urban business and the problems there have been, as you know, in second homes, in vacation homes and on the coast. Madrid centre itself has only seen something like a 10% property price drop all through this crisis. The customer profile is very critical and we have been careful with all of that, but then the mix of segment as whether it is first home/second home and type of home is important as well.

Listen, just to give you a quick sense of why I think we do have an indicator here of why I do think we have a good quality mortgage business there, there is available across the industry statistics for the total number of properties in possession in Spain. That number is about 380,000 properties in possession. We are about 2-3%, call it 2.5% of the market in mortgages in Spain, so you would expect us to have a similar proportion of properties in possession. We have about one tenth of the amount of properties in possession we should have. That doesn't prove everything about the whole business, but it is a pretty useful indicator. If we are running at 10% of our share of properties in possession that is a reasonable, quick thumbnail sketch of the quality of assets we have in our mortgage book there.

### **Question 11**

**Andrew Lim, Espirito Santo**

Morning everyone. I have a few questions, please. On page 23 of your presentation I was wondering if you could give a breakdown of the 2.7 capital deductions there?

**Answer: Chris Lucas**

To the extent we disclose it why don't we get back to you rather than trying to sift through at the moment. Rather than try and struggle through that breakdown if we have disclosed it we will make sure we give you the reference to it.

### **Further question**

Okay. Shall I continue with my other questions? On page 19 you make reference to additional investment in businesses being self-funded through further cost reductions – are we supposed to infer from that that £7.8 billion of cost excluding LIBOR of course, that is an on-going run rate for the current business environment? Are you basically happy with that and we shouldn't expect further cost reductions to bring that number lower?

### **Answer: Chris Lucas**

Let me answer that one, Andrew. On page 19, the £7,779m is the H1 2002 non-performance cost level, which also is the amount if you annualise it at £15.5 billion, it is the number that we gave you last year for the stock of costs that we have to get to to get the £2 billion run rate reduction. What you should expect is, if annualised, to be the sort of non-performance cost number that you should expect to see when you go into 2013. If we want to spend more than that, we have to self-fund it with further reductions. What we have in effect done is taken a run rate number of £2 billion which translates to an annualised non-performance cost of £15.8.

### **Further question**

Right, I see, thank you very much. Then I've got a question on the investment bank provisions. You have highlighted ABS/CDO senior positions as one of the reasons for the increase in provisions. I was wondering whether you could give more colour to whether they are one-off in nature, or whether you are sensing a deterioration in provisioning going on there on an underlying basis?

### **Answer: Chris Lucas**

Let me ask Rich to comment, but my high level view would be that this is an adjustment we make periodically to reflect the market value, of the carrying value of those instruments. Do they occur regularly across a portfolio? They do. Individually, these are big enough to highlight, but I guess what really pleases me when I look at credit market exposures, in other words, this probably comes down if you put it into pounds, in total and the transactions we did this year which are a couple of big property transactions are at marks or valuations above those at which we are carrying the assets in the book. Not only are we reducing our exposure which is really important as we seek a path through but we are actually getting write-backs as well.

**Rich Ricci**

I could not have answered it better myself! Thank you very much.

**Chris Lucas**

Thank you very much for joining us. Charlie and the team will be available to you to answer any questions we have not been able to answer. Thank you for your time this morning.

**End of Q&A**