

24 April 2013

**Barclays PLC Q1 2013 Interim Management Statement****Analyst Transcript Q&A**

*This transcript has been edited by the company as indicated in “[ ]”*

**Question 1****John-Paul Crutchley, UBS**

Morning, chaps. JP here. Two questions if I can. The first is on impairment, particularly in the Retail business, which I just wonder if you could maybe just give a slightly broader colour on that, clearly both in Barclaycard and the Retail business impairments have picked up, albeit from very low levels. I was just wondering how you feel about the shape of impairment trends playing forward there and particularly dovetailing it with the comments from the Bank of England in the FPC report earlier in the month or so about trying to sort of deal with expectations of future impairments down the line into capital plans. And looking at your overall capital position clearly 8.4% in Basel 3 is robustly above the 7% the Bank of England want, and gives you probably about 5 to 6 billion of capacity above that number. And I just wondered if there were any conversations about how much they're expecting to be taking from your capital base in respect of managing to their 7% number. Thank you.

**Answer : Antony Jenkins**

Okay, thanks, JP. Let me take the question on impairment and I'll ask Chris to deal with the capital question.

So on impairment, although we've seen some uptake in the absolute number in Barclaycard in the Retail Bank, and the Retail Bank it's sort of a de minimis number in the scheme of things, in general our outlook for impairment in our big retail businesses is where I would describe as broadly stable. As you know, in the last few years we've seen an improving picture, and we've been talking about that improvement beginning to slow down and stabilise, which is where we see it now. And if we look at the forward flows on delinquency across our big portfolios, the mortgage business in the UK, unsecured lending in the UK cards, in the UK and the US, you know, we see again a stable to - in the US's case - slightly improving

picture. We continue to watch closely the European Retail businesses and our South Africa business, where there has been some stress, but I'd say in the aggregate we think the picture is broadly stable from where we are, JP. Chris, on capital?

**Answer : Chris Lucas**

On capital there's a lot of fluidity going on, and lots of people making announcements. We've been focusing on building the capital base, whether that's through Basel 2.5 reaching 11% in the first quarter, or whether it's Basel 3 on a fully-loaded basis that went up to 8.4%. And to my mind it's the delivery of internally-generated capital that's going to be really important, and that's what we'll be focusing hard on.

**John-Paul Crutchley**

Thank you.

**Question 2**

**Chris Manners, Morgan Stanley**

Good morning, everyone.

**Antony Jenkins**

Good morning, Chris.

**Chris Manners**

So I have two questions for you, if I may? The first one was it seems to me that the sort of non-investment banking revenue, even excluding the derivative gain in Q1 last year, was maybe a little bit softer than the consensus, and I was just trying to understand how you think the net interest margin's going to move from here, 1.79% which is obviously a little bit lower than last year, but I would have thought with deposit costs coming down, in fact, you shrank your liquid asset buffer, that should actually offset some of the hedge decline. And the second question was just on the impact of the clearing of OTC swaps, just in terms of what impact you think you could back it up on the FICC business in terms of the volume impact maybe from extra collateral being held, margin impact in the price transparency, just how you guys are thinking about that? Thank you very much.

**Answer : Antony Jenkins**

On the first question, if we look at non-IB revenues, I think I've been very clear in my sort of central thesis around the macroeconomic environment that we're going to be doing business in, and you know I do

think that it's going to be quite weak for as far as I can foresee, and so we haven't assumed as you know in our three-year plan a particularly aggressive income growth, and I think this quarter just validates that hypothesis. Of course you can see the impact in there of some of the hedging gains rolling off over time. But by and large I think the performance of the businesses on an underlying basis when you look at the shares of product where, you know, we're number one or two on new flow across the whole product suite in our major markets, is very encouraging, and I continue to believe that we've got good underlying momentum that will allow us to win more than our fair share of the available business that's out there. I think on margins, you know, we've talked about broad stability, but as you know we divide into sort of customer margins and other margins, and Chris, I don't know if you want to add on on margins.

**Further answer : Chris Lucas**

I think you're absolutely right. The pleasing point from my perspective is that the margins have performed very much as we expected them to do. So, Chris, you're absolutely right: there's a fall of four basis points to 179, a hedge contribution reduction is one of that, and customer margins down three basis points. And what we expect to see is the margin decline, but to be offset by volume increase. So taken in the round, that interest income should be flat to up in the customer level, and that is exactly what we're expecting to see for the second quarter and on to the rest of the year.

**Further answer : Antony Jenkins**

Chris, could I take your second question in terms of clearing of non-OTCs swaps, and I do think it is very early days. We have been a leader in the primary swap clearing markets, so we think that we'll continue to have that role. We do welcome these developments, and we have made huge strides in other areas like FX, which helps markets to be more transparent. Our initial conclusion is that we don't expect there to be a major impact on revenues, but I think it's quite early days.

**Chris Manners**

Thanks. That's reassuring.

**Antony Jenkins**

Thank you.

**Question 3**

**Jason Napier, Deutsche Bank**

Two please, if I may: the first for Anthony; and then second, perhaps, for Chris. Antony, the reference you made to leadership change announcements, I wonder, you know, given the almost complete change in

top level management of the firm now, can investors sort of take it as read that leadership's stable and this is a team that's going to deliver Transform over the next three years? And then the second question for the IB, clearly the top line performance one of the best in the industry, and there's reference made to credit and securitised products benefiting from tighter spreads in the quarter. CS have also broken securitised products out as being a place that they've done well. I just wonder whether you'd quantify the benefits from spread change, or perhaps talk about where spreads are relative to the end of the first quarter, just as a source of momentum into the second quarter. Thank you.

**Answer : Antony Jenkins**

Thanks, Jason. Let me just talk about leadership changes first. Yes, we've announced a new direction of the Bank with the Go-To Bank and the Transform programme. And although when people look at the Executive leadership of the Group they always tend to see it through the lens of individuals. For me, it's equally, or perhaps more, important to look at it through the lens of the structure of the Executive Committee, and we've made some quite profound changes to the structure. So we eliminated the Retail and Business Banking layers that I used to run by the appointment of Val Soranno Keating and Ashok Vaswani to the Executive Committee. We've bolstered [compliance] by creating a totally independent function, and having that represented at the Exco level by Hector Sants. We've created a Group operations and technology function led by Shaygan Kheradpir, and last week we announced essentially elimination of a layer in Corporate and Investment Banking with the appointment of Eric Bommensath and Tom King to the Executive Committee. And we've also increased our focus on the US with the appointment of Skip McGee. So those are all very important structural changes to the organization. In addition, we of course have a very big strategic push in Africa, which is very ably led by Maria Ramos, and our Group risk function remains led by Robert Le Blanc, and so I think that we have the right structure for the Group now: We have the right individuals in role to take the strategy forward. And I do think that in the course of the coming months we will complete the appointments of the Group HR director, finance director, and general counsel. At that point the Executive will be in place to take the strategy forward.

In terms of the points you made about spreads and so on in the credit market, I wouldn't want to get too excited about that, but I think Chris maybe wants to say a couple of things on that.

**Further answer : Chris Lucas**

I would, and, Jason, I'm afraid I'm going to disappoint you because I'm not going to break out the asset analysis by further categories, although I think I would say in overall terms it's been a fantastic quarter for the Investment Bank: be it the FICC business, be it the Equities and Investment Banking business. I think it's much of what we've been talking to you about over a number of years that has come to fruition and we're very pleased by it.

**Further question : Jason Napier**

Just to follow up on that, and I can almost hear what sort of the bears are going to be thinking. You know when you talk about a fantastic quarter for the IB, you're not trying to say that the Inventory had a fantastic quarter; that's a flow characterisation. Not to put words in your mouth.

**Further answer : Chris Lucas**

No, thank you for that. It was meant to be a description of the overall performance of the business.

**Jason Napier**

Got it, thank you.

**Question 4**

**Raul Sinha, J.P. Morgan**

Morning, gentlemen. Can I have two, please, as well? The first one; could you comment on the outlook for impairments in the non-retail areas? It looks like you had a bit of help in the quarter from recoveries in the IB and in Corporate and I guess IB kind of can be a bit volatile but can we expect some of the improvement in corporate to sustain going forward?

And then the second question is on IB regulatory pressure. Antony, I was wondering if I could get your current thoughts on the US proposals around legal entity structure for foreign banks and I was wondering if we should be expecting some changes to your US business entity structure.

**Answer : Antony Jenkins**

So on impairments in the non-retail space, of course, that tends to be susceptible to more volatility quarter on quarter because it tends to be the sort of so-called single names. We did have a very good quarter in the investment bank. We should not expect that necessarily to be repeated quarter on quarter but again, I think the impairment will be driven by the general macroeconomic environment in which we operate.

I'm grateful that we don't have large exposures for things like commercial real estate in the UK but from time to time, you know, there will be challenges and, as I said before, the environment is quite muted and therefore susceptible to impairment from time to time. But I don't think, as we look at it right now, we see a material deterioration in the environment and therefore we wouldn't expect a material change to our impairment. What you will, what you might see from time to time is a bit of volatility in the line.

In terms of regulation in the United States, the regulation, as you know, is in the process of formulation. The consultation period has just closed. I did meet with Governor Tarullo when I was in the States a few weeks ago. It is too early to say by far what the specific output of this will be but my view is that, given all the changes that we have to make to accommodate the ring-fence in the UK, whatever requirements are in the US, CRD4 in Europe, that we will be able to accommodate those within the group's structure and that we'll be able to implement them over time in a way that allows us to do that, to preserve the benefits of the banking model for our shareholders. But I can't be specific because there's nothing to react to at this point.

**Further question : Raul Sinha**

Okay, thanks very much. And if I can just follow up on the impairment question and on corporate specifically, where there was a little bit of improvement in the quarter – and again, I understand it can be volatile – but just in terms of, we are starting to see kind of availability pick up in the UK and is that any cause for optimism there on the corporate side and do you think that European corporate provisions are now, you know, past their peak?

**Further answer : Antony Jenkins**

You know, we have continued to see improvement in our wholesale impairment levels, in Spain in particular, and we signalled that to you previously and I think, you know, we've seen moderate improvement in the UK but it continues to be quite a challenging environment for corporates. Corporates are, in general, being conservative. I think that's helped overall impairment in the sector but, as I say, I think our general view is that the situation has not changed very much from what we signalled the last couple of quarters.

**Raul Sinha**

All right, thanks very much.

**Question 5**

**Andrew Coombs, Citigroup**

Good morning. Two questions from me, please. Firstly, thank you for splitting out the 500 million transform restructuring cost on slide six. Would it be possible to give some guidance on the annual cost save which is specific to those actions, the 2,000 headcount reduction in Europe, 1,800 in investment bank and so forth? And are those cost saves split in a similar proportion to the restructuring charge?

My second question is on capital. In the penultimate paragraph on slide 32 you state that there would be an extra 4.5 billion capital deduction for CRD4 rules on financial holdings but that you adjust that for management action. So perhaps you could just elaborate on exactly what those actions are and then, in the context of the wider discussion on capital, how you believe the FPC and PRA will interpret those rules when they use their own calculation methodology relative to that 7% target that they've set.

**Answer : Chris Lucas**

Let's try and start on capital. If you go to slide 31, you see on there the 4.5 billion non-significant holdings in financial institutions, offset by mitigation, the management action. They fall basically into two categories; one, improvement in hedging and secondly, just generally a reduced activity in financial stocks. Both of those, we think, are eminently achievable and therefore that we'll be able to mitigate almost fully the impact of the non-significant holdings of financial institutions.

So it's early days. We disclosed this at the year end, although we had netted the two down. We felt that it was appropriate to show the two numbers gross. As you can see, they're included in the fully-loaded ratio, as is appropriate.

**Further answer : Antony Jenkins**

And on the benefit of the cost save, I think we signalled about two-and-a-half year payback on the initiative so you can probably do the maths from that.

**Further question : Andrew Coombs:**

Okay. Just coming back to the mitigating actions, would there be any revenue attrition associated with those if you had to proceed down that route?

**Further answer : Chris Lucas**

We would expect there would not be anything significant.

**Andrew Coombs**

Okay, thank you.

**Question 6**

**Chintan Joshi, Nomura**

Hi, good morning. First question; just wanted to clarify something. The cost run rate that we should be thinking about going forward; you've highlighted to 16.8 billion in 2015 but 17.5 including CTA. If we're thinking about a sustainable cost base, which one of these two numbers should we be thinking about?

**Answer : Antony Jenkins**

Well, what we gave is a 2015 number and the 17.5 is the number that you should think about in terms of what would flow through the P&L.

**Further question : Chintan Joshi**

So that's something that we can take forward into the following year or we should be thinking 16.8 as the base?

**Further answer : Antony Jenkins**

Well, we've only talked through 2015 so when we get to, closer to 2016 we'll provide you with some more direction on that. But, I mean, clearly my view is that the process that we're in here is one that is not just about running a cost programme for a three-year period, this is about changing the way we fundamentally run the business so that we're constantly re-engineering our core processes in a way that provide a better customer or client experience, greater control and lower operating costs. And to do that requires money but by the time we get to 2015/16 the benefit of past years' savings will go in large part to fund the investments that we have to make to continue to deliver the sort of cost saves that we've seen.

And obviously beyond 15 our view will be informed by, you know, other growth opportunities that we may have and other investments that we may want to make so I would think, I would focus on 15 at this point.

**Chintan Joshi**

Okay.

**Further answer : Chris Lucas**

You see that in the strategic review deck that we produced that shows, in 2015, the target of 17.5 which includes 0.7 of costs to achieve for future cost reductions, meaning out beyond 2015.

**Further question : Chintan Joshi**

Yes, thanks for that. The second question was in Barclaycard. You've done quite well on volumes out there, doing that very nicely but margin compression seems to be an ongoing feature. I remember when you gave an update, you were hoping – I think it was last year – you were hoping that margins will stabilise. And given that there is a kind of an ambitious revenue target, I was just wondering what the headwinds from margins are, how much will they continue, just, you know, so that we can think about both volumes and margins in this area.

**Further answer : Chris Lucas**

We've given you the information at the group level which picks up the credit cards as well as the mortgages and commercial lending and I think that's probably as far as we're going to go, which is that four basis points number that I gave you earlier, which really is on the customer side. I think the overall position looks pretty good though and, as I've said, the important aspect from my perspective is the hedges are operating exactly as we would expect them to operate.

The margin is down slightly because of the competitive pressure but the volumes are improving so [inaudible] it's a slightly positive, upward story.

**Further answer : Antony Jenkins**

Yes, and I think in that business we do have good momentum, as you said, on the volume side and I think, you know, the margin picture is stabilising and when we get to the seminar on Barclaycard we'll talk in more detail about how we foresee the opportunities for that business. But 5% income growth is something – sorry, 12% income growth is something which, of course, we're very happy with.

**Further question : Chintan Joshi**

Okay, and if I could just follow up on Chris Manners' question; if I think about traditional banking pre-provision profit, it's quite below what market expectations were and I can't put a finger on which division is missing expectations, if you could help out there.

**Further answer : Chris Lucas**

I think when we look at it, we look at a slightly different picture to the one you look at. The businesses, I think, have performed well and particularly on an underlying basis so I don't think there's much more for us to say.

**Chintan Joshi**

Okay, thank you. And just one request; thank you for the head office allocation. That really helps see a better picture of the group but it also messes a little bit up your divisional targets that you'd given with

the strategic review and I was wondering if, at the half year stage, you could update us with what the restated numbers would look like in terms of targets.

**Antony Jenkins**

Yes.

**Chris Lucas**

Certainly.

**Antony Jenkins**

We will be sure to do that.

**Chintan Joshi**

Thank you very much.

**Antony Jenkins**

Thank you.

**Question 7**

**Fiona Swaffield, RBC**

Good morning. And I have two questions; one was, at the strategic review you talked about businesses you were exiting or, I think, transforming or transitioning. Has any of that flowed through to revenues already in Q1, so have you already seen some offset to revenue growth from that strategy?

And the second issue is on costs, the performance costs. Is most of the 10% decrease due to deferred compensation going down? I'm just trying to look at the 18.5 billion for the full year and obviously you're, because of seasonality, running above that at the moment. I just wondered if you could comment on that.

**Answer : Chris Lucas**

The performance cost, as you know, is an accrual at this stage so trying to split it between deferred and in cash for the current year is a level of detail that we would probably look at the half year rather than the quarter. So I think that one should probably be parked, we'll come back to it in July/August time.

**Further answer : Antony Jenkins**

Yes, and on the portfolio repositioning, obviously, Fiona, as you know, we've been doing that really for a number of years and we've significantly reduced our exposure in credit market exposures, for example. But I would not say that, you know, there is a material reduction in those assets within the quarter that would affect revenue. Obviously we really began the programme in the first quarter so there's no impact there yet.

**Fiona Swaffield**

Okay, thanks very much.

**Antony Jenkins**

Thanks, Fiona.

**Question 8**

**Tom Rayner, Exane BNP Paribas**

Yes, good morning, chaps, Tom Rayner here. I was also going to start with a couple of questions on cost. The first one really just follows on, I think, from Fiona's question. I'm just interested in the Q1 performance on costs, excluding the costs to achieve and just trying to get a sense of how comfortable you are with that performance in Q1 versus the 18.5 full year target for 13 you set out in the strategic review. I know there's sort of seasonality here so I just wondered if you think that, you know, progress is heading very much towards achieving that number.

I had a second question on costs within the investment bank. I don't know if you want that now or after.

**Chris Lucas**

Yes, if we could have the second question as well, Tom, please.

**Tom Rayner**

Yes, just, I mean, just looking at the combination of the accounting changes and then the reallocation of head office, I mean, for the investment bank it seems to have left revenue broadly unchanged. It's pushed costs up and brought impairments down and I'm just wondering if you're likely to sort of recalibrate the cost to net income or net operating income target of 60 to 65 on the basis of all those changes. And I'm

just thinking along the lines of, if the comp ratio does get down to the mid-30s then, even with the restatements, the 60 to 65 possibly doesn't look that challenging as a target any longer. So I was wondering if you could comment on that as well, please.

**Antony Jenkins**

Yes, I'm smiling at the not looking very challenging comment.

**Tom Rayner**

Well, if you can get the comp down – I mean, that might be the challenging bit.

**Answer : Antony Jenkins**

I understand the arithmetic. So let me just talk about cost in general. I think we have successfully run a cost reduction programme in the group. We started it in 2011 under Bob's leadership, we called it Project Green. We targeted taking £2 billion worth of cost out, we've done that successfully and you can actually see that when you adjust out the cost to achieve in the year on year declining costs.

But that is different from what we're talking about now. We're talking about a structural transformation in the cost base. That requires a lot of very detailed work to look at how our core processes operate, identify the activities that really drive costs, track them and track the gradual reduction of the work because if you don't reduce the work you can't reduce the cost. And I would say that we've made very good progress in the last two or three months in putting in place the architecture to allow us to do that so we are very much committed to the cost reduction targets that I gave in February and I think we are making progress against that.

Of course, you know, in any given quarter things may move against you; FX rates in particular affected the cost number in this quarter but we are still committed to that overall direction.

As you have observed, we have pushed out a lot of the cost across the group. I think that's very appropriate. I certainly have sympathy for the position of our investors who want the business cost structure to reflect more accurately the true cost. And a consequence of that, of course, is that the ratios have deteriorated but we remain committed to [the mid 30s comp to income ratio in the IB and mid 50s cost to income ratio for the Group] over the medium term.

**Further answer : Chris Lucas**

Tom, one last comment; I think when we look at costs overall – and I'm looking at page six, at the IMS – we see a degree of seasonality in the operating expenses line, excluding levy and transform so I think I

would hesitate to annualise because of that seasonality. The first quarter is always the richest from a cost/spending perspective.

**Further question : Tom Rayner**

Which is quite interesting because the, excluding cost to achieve, it looks like Q1 was about 25% of the year target which, if that's a seasonally adjusted high quarter then possibly bodes quite well for how you're getting on. Is that fair enough?

**Further answer : Chris Lucas**

I would just hesitate to use the quarters as an annualised.

**Tom Rayner**

Sure.

**Further answer : Antony Jenkins**

It's tempting to do it, I understand it's tempting to do that math. I am tempted to do it myself on occasions but all I can say is there's a lot of work to be done to deliver the cost commitment that we made. And as far as I'm concerned, we're right on track at this point for those commitments and I think we should just periodically in these conversations, you know, come back to the proof points around that.

**Tom Rayner**

Cool. Okay, lovely, thanks very much.

**Antony Jenkins**

Thank you very much.

**Question 9**

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

Thanks, morning, everyone. I did have two but unfortunately I've got another one now. Antony, can I just get you to clarify that point that you just made? Because you completely confused me. I don't see how you can be committed to a 60 to 65 cost/income ratio in the investment bank when the overall group is targeted at 55. Did you just slip up there or are you implying that the cost/income ratio outside of the investment bank is going to be materially lower than 55?

**Answer : Antony Jenkins**

That's been our commitment on the investment bank, to have a [comp to income ratio in the mid 30s]

**Further question : Michael Helsby**

But you didn't really restate the 60 to 65 at the strategy days, you just talked about the comp ratio going from sort of the low 40s down to 35. Clearly you're targeting infrastructure savings so I'd always assumed that naturally the cost/income ratio would be going lower.

**Further answer : Antony Jenkins**

No, I think it's, you know, that's the commitment we've made. We've made the task harder by allocating out more central costs and you'll recall that the cost to income ratio in businesses like Barclaycard and the retail bank are lower than that so we remain committed to those numbers.

**Further question : Michael Helsby**

Okay, fair enough. In that case, can I just ask the two questions I was going to ask? And firstly, just to clarify, on the risk-weighted assets, was there any RWA improvement from the management actions that you'd identified in the context of legacy assets in Q1? So that's question one.

And then just on, in the sort of non-investment banking revenues, clearly Africa was weak Q on Q and you talked about the FX and volumes. But costs actually went up pre the levy Q on Q so I was wondering if you could just talk more about that pre-provision movement in Africa, which was actually quite weak relative to certainly my expectations.

**Further answer : Chris Lucas:**

Let me start with risk-weighted assets. As you can see, the move is from 387 to 397 and 8.5 of that is foreign exchange. There is some small amount of what would be described as business activity adjustments but it's relatively small. It doesn't, at this stage, warrant its own number but that's, I think, a reflection of one quarter rather than where the overall programmes are heading.

**Michael Helsby**

Okay, so basically nothing, really? Okay, fair enough.

**Further answer : Antony Jenkins**

So on Africa in specific, we have experienced some decline in volume really through the course of last year and into this year and we believe that that is stabilising and, you know, we should see better performance going forward. On the whole – that’s specifically to do with our retail business in South Africa. On the whole, our African performance was good and we expect a stronger performance prospectively.

**Further question : Michael Helsby**

Okay. And the – sorry – the movements in cost because the cost line clearly – because FX drove revenue down but cost went up so it went up even more on an underlying basis. Is there anything to talk about there? Because you didn’t really mention it in the commentary on the Q and year to date.

**Further answer : Antony Jenkins**

Yes, I don’t think you should read too much into that, Michael. I think it was just, you know, an in-quarter movement, I don’t think that’s a trend.

**Michael Helsby**

Right, okay. Thank you.

**Antony Jenkins**

Thank you very much.

**Question 10**

**Ian Gordon, Investec**

Morning. If I could have just three quick ones, please; firstly on UK retail in terms of balance sheet footings, ex the ING acquisition. The numbers look pretty static and I guess that’s actually outperformance against pretty dire industry numbers and today’s BBA numbers are no exception. I guess my question is what, if anything, does this morning’s FLS announcement do for you other than extend the period of contingency funding requirement, which you probably don’t need and may not use?

Second question, again focusing on the overnight announcements; the email which came out from Bully Bank seemed quite smug in terms of the scale and scope of redress offers so far. I wondered if you’ve got any comment on that.

And then thirdly, forgive me, I haven't actually found your normal geographic split of revenues but my question was more specific to Barclays Capital. Can you just provide any commentary on the split by geography of revenues either in this period or forward-looking, where I guess you've had a bit of an FX tailwind from the currency movements?

**Answer : Antony Jenkins**

Okay, let me deal with those. Firstly on the retail bank, you're right to say that the market is, you know, quite low-growth and I do think that we've got more than our fair share of business across the major product categories, whether that's savings, mortgages, loans, etc. Funding For Lending is a scheme that we've supported. We think it's important to make sure that we're doing everything that we can to support the British economy but, as we've said before, you know, we don't need the liquidity, we've got plenty of liquidity. This scheme changed, an adjusted amount so we're looking at it quite closely but I would expect we would continue to support the Funding For Lending scheme.

On interest rate swaps, I think that Bully Bank's actually been quite complimentary of how Barclays has handled the processing of claims and the engagement that we've had with that lobby group. We are just beginning to pay out the first claims on this. We have an enormous focus on addressing these claims not only fairly but also expeditiously. They're quite complex claims, very different from PPI, for example. Every claim has, on average, about 3,000 pages of documentation needs to be reviewed. So as we said in our announcement, we don't see the need to change our provision at this point.

And finally, on the geographic split, Chris, do you have a comment on that?

**Further answer : Chris Lucas**

Yes. The end of the first quarter or the first quarter is broadly as follows; about 50% in the US, 40% is in Europe and the UK and 10%'s in the rest of the world.

**Ian Gordon**

Okay, thanks very much.

**Antony Jenkins**

Thanks, Ian.

**Question 11**

**Peter Toeman, HSBC**

Morning. At the strategy day you talked about the reduced cost of the UK ring-fencing regime and I think you also indicated that the higher requirement for – or dedicated capital for US subsidiaries wouldn't be too onerous in P&L terms as well. So I just wondered if you could highlight why you're thinking about the cost of the ring-fence has now become more sanguine, if indeed it has become more sanguine.

**Answer : Antony Jenkins**

Yes, I think our view on that hasn't really changed from what we discussed at the investor day. I do think that as the regulation in general becomes more clear and the timeframes are also clearer we have a better sense of how we will run the ring-fence so I think it's possible that we'll be able to operate what we've described in the past as a narrow ring-fence with basically retail, deposits, current accounts and small business accounts in there and to match that up with appropriate assets.

And we also think that the market has begun to price in the funding costs around ring-fence because, as you see, we've raised, you know, long-term debt in the last year which would exceed the period in which we've got to implement the ring-fence. So we do think that it's been reflected in our costs of funding. That's really what we said in February and we don't have anything more to say at this point or new information.

**Peter Toeman**

Thank you.

**Antony Jenkins**

Thank you.

**Question 12**

**Christopher Wheeler, Mediobanca**

Yes, good morning, everybody. A few questions but hopefully quick; the first one is on the transformation costs. Obviously the 500 million charged in the first quarter; are you expecting to bring forward much of the 1.7 billion which is planned for the next two years or are you assuming you'll just stick around the one billion for this year? That's the first question.

And linked to that really, is where they will be charged, is slide 23 a good guide or can we start to see some of that shift out of European RBB? That's the first question.

Second one on the investment banking equities; obviously an excellent performance, up 19%. I think, if we look at the whole peer group so far, they've fallen 6% quarter on quarter. You said market share gains; is that mainly in the United States on the back of IPO performance or is it more broadly-based than that?

And then staying on IB, you, at the investor meeting in February, talked about aiming for a 35 – well, yes, I think – a 35% compensation ratio but that was obviously against the 39% under the old accounting regime. Where are you on that, has that changed at all?

And then finally, just on wealth management, obviously Tom's departure last week raised a few questions about the future of the plans you had for that business. Could you perhaps confirm that you expect to continue with your plan of building out post project Gamma and perhaps give us a feeling for the sort of person you're looking for to run that business going forward? Thank you.

**Answer : Antony Jenkins**

Yes, so there's quite a lot of questions there. Let me just deal with them in no particular order. On the equities, we're very pleased, it really was across the board, not just in the US but also in our Asian business in particular.

[On the comp to income ratio, that's a number that we signalled for the IB. We were talking about the mid-30s. We're not changing our aspiration there.]

On wealth, wealth as a business we remain committed to. I do think there are opportunities for us to further leverage capability across the group but that will only help us to execute the strategy more effectively.

And in terms of costs, Chris?

**Further answer : Chris Lucas**

Cost to achieve target for the current year is £1 billion of which, as you said, we've spent 514 in the first quarter. The remaining 500 million will be over the second, third and fourth quarters.

**Further question : Christopher Wheeler**

Okay, so just to go backwards actually, I think you said there the mid-30s comp ratio was for the whole group. I think, if you looked at slide – I think it was – 44 in your strategic review, it was specifically focused on the investment bank.

**Further answer : Antony Jenkins**

Yes, [the mid 30s comp to income ratio is for the IB.]

**Christopher Wheeler**

Sorry.

**Antony Jenkins**

Yes.

**Christopher Wheeler**

Okay, that's fine. Thanks very much, that's most helpful.

**Question 13**

**Faheed Kunwar, Redburn**

Hi, good morning. I just had a couple of questions on capital. The first question was on the PRA and the FPC; obviously the 25 million capital shortfall's identified. I just wanted to know where in the process you guys were with the PRA in terms of discussions around filling that shortfall and if you expect that number kind of allocated to you to increase. Obviously they didn't test trading book risk-weighted as ex Basle 4 but do you expect it to increase once they're doing all the timelines on that?

And the second question is following on from earlier; are there any other netted items within the kind of fully-loaded Basle 3 ratio? Obviously the non-significant holdings is a netted item but I was wondering if there are any other nettings in the kind of detail you give on page 31. Thank you.

**Answer : Chris Lucas**

The answer to the second part of the question first is no, there are no other nettings that we're aware of and I'm looking at them now; there aren't any. In terms of where we are more generally on capital, we speak, as you'd expect, to the regulators on a virtually continuous basis about a lot of things, including capital plans, including capital raisings, including distributions and that has continued. And I think if we had anything specific to say to you we'd have said it and I think we otherwise have an onward dialogue with the regulators and we will update you as and when it's appropriate.

**Faheed Kunwar**

Okay, perfect, thank you.

**Antony Jenkins**

Thank you very much, everybody, for joining the call. We really appreciate the time. Thank you.

**End**

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