BARCLAYS

Barclays 2010 Full Year Results

Tuesday 15 February 2011

Analysts Question and Answer Session

Question 1 : John-Paul Crutchley, UBS
Morning, John-Paul Crutchley from UBS. Two questions if I can, both actually Barclays Capital related. One on Protium and one - a broader business. First of all on Protium, clearly that was put in place in terms of managing risk assets at the time and actually giving yourself time to work those assets over a period of time. It looks like you obviously clearly rethinking your strategy there. It looks to me the loan itself is obviously not in default, you mentioned in the text, it is obviously current. So it is a third party process of course. So in terms of extricating yourself from that as you are now talking to, I just wondered if you could maybe give us some colour around that. Should we expect costs relating to get out of that? Does the loan need a further haircut, will you actually have to unwind the management agreement which could have some costs? And another second question on BarCap and Basel III afterwards.

Answer : Chris Lucas
To start with, Protium. We made the decision in November to start to look at alternative holding strategies and we are still as you would imagine in negotiation with the Managers. Until we have completed that it is going to be very difficult for me to say anything more. The decision we have made is the result of a view of the level of capital held and the return on it. In terms of how we go forward, I think we will have to wait until we have reached agreement.

Further Answer: Bob Diamond
If I could just add, I think that question is correct. The decision we have made wasn't a worry about the loan or a worry about the risk, it was the levels of capital increased so dramatically from when we originated it. So when we went through the analysis I showed you with the Board in November, one of the biggest users of capital increasingly, particularly as Basel III is implemented was Protium. And that is when we began the discussions, but still early stages. But we made a decision that if we can change the term of the loan we will.

Further Question
The follow-on was on Basel III more generically in terms of Barclays Capital. And I appreciate this is actually an industry question, not just a Barclays question. You sound fairly confident you can actually delivery 15% RoE in a Basel III world, in a deferred BarCap model. Clearly when you look at those businesses today, particularly dominated by fixed income franchises, it is very hard to get a double digit return in terms of implied Basel III capital in the business and the returns those businesses are generating at the moment, again as I say it is an industry issue, not just a Barclays issue. So in terms of your confidence in being able to deliver that 15% RoE, how much does it reflect what you are doing in terms of shifting the nature of the Barclays Capital business in terms of other areas, versus de-emphasising parts of the FICC business as well over time?

Answer: Bob Diamond
Well I will ask Jerry to comment and Rich as well. But I would say the two big picture things that I think are slightly different to what you are saying. And one is we feel terrific about the build out of equities and M&A for exactly what you are saying which is the opportunity to have bought Lehman

Brothers and then to have built these businesses. Their use of capital is low. The franchises are great. So they fit the new world very, very well. But I think on FICC the thing you are missing is, we are a flow monster already. We have been for a while. So I think there are industries that don't see the, sorry, there are competitors that don't see the kind of flows that we see, that will have to adjust their model. But it is very, very different when you are an industry leader.

Further Answer : Jerry del Missier
JP the only thing I would add is that in addition to kind of the focus on optimising the business model and you can think specifically some elements of the structured credit business aren't coming back. But they haven't frankly been a big part of our business for years. We also have the ability to manage down existing credit market exposures so you still have a reasonable amount of stuck capital that gives us flexibility to focus on driving and managing high returns as the rules evolve over the next 2-3 years.

<u>Question 2 : Cormac Leech, Canaccord Genuity</u>
I just have two questions please. The first is on liquidity. I think your LCR and NSFR ratios are about 80% & 94% respectively. I just wondered, are you planning to maintain those ratios going forward? I notice the LCR dipped a bit from the third quarter.

And then secondly could you also give us a rough sensitivity analysis to moving those say by 10% or so?

Answer : Chris Lucas
We do intend to keep them in the range. We don't have a religious view about exactly where they have to be. So they will move up and down. But you wouldn't expect to see them move dramatically. And in terms of sensitivity, it depends somewhat on the composition of the underlying assets and the liquidity pool which we are working on in terms of how we improve the return on that. And at this stage, that is probably about as far as I will go.

Further question
Could I just get a second question briefly? I think slide 31 was particularly useful where you give the split of equity in businesses that are below the cost of equity in terms of the RoE they are generating and above. I wondered if it was possible to get this same type of split just for BarCap?

And then secondly if possible, to get a rough PBT split that would map to that equity split? Thanks.

Answer – Bob Diamond
Yeah you would probably like me to fill that slide in too with the names on! It was very much used as a way to show you the kind of things that the Management Team is doing and the quality of discussion we are having with the Board about how we take the action going forward. We are certainly not going to mention anything where we haven't made a final decision yet, nor are we going to fill those in. But understand, that is the way we are managing the businesses. So you know there is no sacred cows. Every business is going through the same drill and the same process. And it is a backward look, it is a forward look, it is a look at how returns are today. And every business has to be able to provide returns above the cost of equity on a sustainable basis with a client and customer proposition that puts it in the top tier. There will be no exceptions.

Further Answer – Chris Lucas
Before you ask, we are not going to provide a scale either on the left hand side!

<u>Question 3 : Michael Helsby, Bank of America Merrill Lynch</u>
Thanks, it's Michael Helsby from Bank of America, Merrill Lynch. I have got a couple of questions. Firstly one on the Group RoE targets. And then secondly on just some BarCap specifics. But I think everyone in this room would probably, if you did a poll would think that you need to be running at a

10% Core Tier 1. That is certainly the perception within the market. So I am very intrigued why you have picked 9%, because clearly you have had all that feedback as well. I am just wondering if it is anything to do with the level playing field from maybe Project Merlin? So I was wondering if you could comment on that? And also linked into that, if you use 10%, would you still be happy that you could get to a 13% RoE?

And on BarCap I was wondering if you could quantify the total negative PBT impact from your credit market exposures in 2010 and also I think you have referred to Protium and clearly the higher capital, what the Basel III risk weightings are for your credit market exposures, if you looked at them today? Thank you.

Answer : Bob Diamond
Good questions Michael. Let me take a crack and then ask Chris to fill in as well. You know we are looking at the same information you are. We know a lot of things, but we haven't had a final decision by the FSB on SIFIand G-SIFI. We haven't had a final decision, we won't have a final decision from the Independent Commission on Banking. So the 9% is our best judgement on where we will be running. To put you at ease, we wouldn't change our commitments one iota at 10%. So we know that these work at both 9% and 10%. We think 9% is where we will end up. We have heard JP Morgan say 7%, I think Deutsche said 8%. We are saying 9%. We won't know for sure, but Chris and I were sure that when we did this drill, we could hit these targets of both 9% or 10%.

In terms of the credit market write-downs, if I can say it generally and then ask Chris. P&L wise, other than the Protium provision, it was pretty neutral, the issue for BarCap is the capital that it is using as opposed to the risk.

Answer : Chris Lucas
All I was going to add to that is in terms of profitability, if you look at the credit market exposures through the income statement, it is about £100 million ex Protium. And there is very little impairment. So as you say, at P&L level it is broadly flat and in some respects you are seeing slight write backs of some of the asset categories, but nothing massive. But as you say it is really the capital impact rather than the profitability of it.

Further question
And sorry, have you got the capital impact, sorry the Basel III risk weighted assets? That would be very useful.

Answer – Chris Lucas
I know! [laughter] For another time Michael. I should just say, we have given you the gross Basel III impact Basel II.5 and Basel III impact and it is in there.

<u>Question 4 : Bruce Packard, Seymour Pearce</u>
Bruce Packard, Seymour Pearce. I just want to go back to that flow question about Barclays Capital and if you can give us some sort of rough idea of the real economy businesses versus other financial institutions, the flow businesses at Barclays Capital? I know you have never given that before, but is it possible to do that?

Answer : Bob Diamond
I'm sure we can give a sense. If you're asking is it a prop versus non-prop?
Answer : Jerry del Missier
We don't break it down sort of per say. We obviously deal with corporations, we deal with Governments, we deal with hedge funds and traditional asset managers. And you know it is a pretty balanced business. Now some businesses, if you can imagine commodities business and foreign exchange, parts of it are skewed towards corporate clients and that is very much. Real

economy, it is either hedging transactions or in the case of commodities, a lot of the things that we do is off the back of finances and frankly the hedge is a critical part of driving the financing. Within the fixed income and equity world as you can imagine, it tends to be more financial institution and government and people looking to raise money and then obviously investors looking to put capital to work. So there isn't a particular focus. I mean there are times in the cycle where one client sector is more active than the other, but fundamentally the key to having a very successful and sustainably successful flow business in these different asset classes is actually having a very well diversified and balanced client franchise, supported by research, backed up by technology and having the capital to facilitate the underlying flow as well.

Question 5 Mike Trippitt, Oriel Securities
Mike Trippitt at Oriel, a couple of questions. I just want to clarify the point you made Bob about the addition £2 billion of income. Does that compare with the £4.2 billion you reported for investment banking and equities I think for 2010? You talked about the incremental £2 billion coming through in equities.

Answer : Bob Diamond
Equity and advisory. It would be in that segment. So the chart where you saw FICC, equities and prime services and advisory would come in those two middle businesses.

Further question
And that is additional, so £4.2 billion I think the top line income for 2010. So I just want to make sure I got apples with apples. And on the investment spend in BarCap, £800 million in '10, is there any more investment spend required to achieve that £2 billion? Where are we actually on the actual investment schedule?

Bob Diamond
Rich do you want to give an update? I think you are referring primarily to the equity and advisory business in Europe and Asia. Rich can give you an update on that.

Answer : Rich Ricci
I think that we have done a lot in the last couple of years, we are probably about 80-90% through in Europe. I would say we were around 70% done in Asia. So there is more to come, but I don't think you will see the same level of costs going forward. We have got the technology built now in Europe. There are still some people to fill in. Asia, technology is being deployed on a prioritised basis to varying countries, but you will see some more spend, but not at the levels for those businesses we have had the last couple of years.

Further question
Sorry could I just ask a follow-up on Barclays Corporate. You talked about Western Europe and Spain, that is understood and New Markets. But the mainstream UK and Ireland business is still I think, I haven't done the calculation for 2010, but certainly the first half was generating a sub cost of equity return. And I just wondered what your thoughts are on that in terms of restructuring and refocusing to get that back up to the right level of return.

Answer : Bob Diamond
Rich. The questions about the UK and Ireland corporate business.

Answer : Rich Ricci
What was the question sorry.

Bob Diamond
I think the question was how is that performing and is it earning comfortably above its cost effectiveness?

Answer: Rich Ricci
The UK and Irish businesses have shown great resiliency and coming back to where it should be. That business has been a successful business for a very long time. We are very confident that those businesses will earn the cost of equity this year and in general I think you will see some improvement around the non UK and Irish businesses this year as well. And without making forward predictions, we would hope the Corporate Bank would be close to break even for the year.

Question 6 : Peter Toeman, HSBC
Peter Toeman from HSBC. You have told us there is going to be more focus on cost and a billion coming off the run rate of costs. But in addition to that, another way costs could fall is cost/income ratio at BarCap could go down to say 60% from its current 65%. That would still be within your target range. I was wondering, should we be thinking about these two movements as complementary or will you get one through, should we look at only one of them as being the likely outcome?

Answer : Bob Diamond
We were pretty clear last year when we gave you a range of 60-65% for BarCap and I think that will fluctuate based on market conditions. It will fluctuate based on the level of investment spend. But we are not going to fine tune it more than that.

Operator:
We have a question coming through from Andrew Lim from Matrix. Please go ahead.

Question 7 : Andrew Lim, Matrix
Hi, it's Andrew Lim from Matrix. I have three questions please. Could you give us a climate for the environment in which we would have clarity on whether the IFRS pension deficit of £3 billion might be deducted from capital reserves?

Secondly, could you tell us what the main drivers are for the improvement in your internal cost of equity down to about 10% by 2013?

And then thirdly, could you correct me if I am wrong, but I remember the RoE target being greater than 15%, which is now greater than 13%, is that a reduction in your target there? Thanks.

Answer : Bob Diamond
I will start with the last one and then ask Chris to fill in on the others. I think you maybe recall we had 15% for Barclays Capital which we still have. We have never given a target for the Group. So no, it is no change. Sorry, it is new as opposed to a change, is I guess the right way to say it.

Answer – Chris Lucas
Andrew in terms of the pension, it could go there. You need to have two things happening. One, the change to the international accounting standards flow through. And secondly there is a change in capital calculation, both of which could be on the cards in 2013/14 type time horizon. If that was the case then we would have to deduct that from capital. What we have worked on and built into our plans is what we would do in terms of the existing requirements where you take, deduct from capital the deficit reduction plan. And that is what we are looking at. I should just say that the estimated deficit of £3.2 billion is down £1 billion on where it was a year ago.

Andrew, I can't remember your third question. Maybe you could repeat it.

Further question
The main drivers for the improvement in your internal cost of equity?

Answer : Chris Lucas
It is a slight increase in the risk free rate offset by a bigger reduction in the equity risk premium.

<u>Question 8 : Ian Smillie, RBS</u>
Ian Smillie from RBS, three short questions please. Could you tell us the stock of amortised, deferred compensation at the period end that will come through the P&L in future years please?

Secondly, during the period of focus on profitability through to 2013, could you give us some sense as to what you expect to happen to total assets rather than risk weighted assets?

And thirdly, there has been some discussion from the Independent Commission on Banking about some move to partial or full subsidurisation for UK banks. In terms of scaling the issue, could you give us some sense of what you have told them in terms of the capital and funding implications if that was to be imposed onto the UK banking system please?

Answer : Bob Diamond
I think on the last one, I think our report is public isn't it. That is a public record.

Further Question
Sorry the question was more in terms of the quantification of what you might have told them in verbal meetings rather than in the written documentation? I am assuming that has been discussed between you and them.

Answer: Chris Lucas
It has and for varying reasons, as you can imagine, if we were to start publishing that, it would put the relationship we have with the commission for banking, back somewhat. So I think that is a private conversation that should remain so for the time being. Sorry Ian.

Answer: Bob Diamond
I guess there was a question on, do we give the stock of unvested comp? I don't think we can.

Answer: Chris Lucas
In broad terms if we look ahead, the impact of deferrals on each year's P&L is broadly coming to zero. So your future deferrals and your past deferrals in are starting to balance each other out. So I think as I look forward, you can almost put a zero adjustment for deferral on an annual basis.

Bob Diamond
On 2011 and 2012?

Chris Lucas
Yes 2010 was just under £700 million.

Further Question
And on asset growth?

Answer: Chris Lucas
Not something we spend a long time looking at. Most of it as you can imagine is on risk weighted assets. But we are looking at absolute asset growth and as I have said, risk weighted assets are in low single digits. Normally the balance sheet grows a bit faster than that. So I would have high single digit type number.

Question 9 : Chris Wheeler, Mediobanca

Chris Wheeler fromMediobanca. A couple of questions on slide 28 if I may on Basel III. First of all on the 11.5% 2013 number, that looks like it is before the phased in deductions. Perhaps you could give us a feeling of how that might be if we take it all in at that stage?

And secondly, on the RWA uplift, I think that, if I remember rightly from your numbers, is the plus £150 billion minus £50 billion of mitigation. Could you perhaps give us a clue as to how much of that mitigation might be the shedding of the credit market exposure you have been talking about?

And then perhaps secondly, a lot of your competitors have discovered a new alchemy where you can shed risk weighted assets without revenue. Could you give us a feel for that? Thanks very much.

Answer : Chris

The 11.5%, I think if we have a fully loaded complete in Basel III, we would drop 1% over five years. So 0.2% a year is our best estimate. The RWA impact, I am going to stick with where we went at the end of the third quarter, to say that £150 billion gross net of £50 billion management actions is still the sort of number we have got. It has gone up slightly, but only materially. The £50 billion reduction includes some of the work on credit market exposures we would expect. So an alchemy, not something I understand.

Question 10 : Alastair Ryan, UBS

Alastair Ryan from UBS. Two things; one, a small request and the second more substantive. The small request. You gave us a very nice breakdown of FICC revenues into rates and credits and commodities and what have you. Can we have that back please.

And second, it is in the Retail Bank and it looks like there is some good momentum in the UK, good margins on new business, deposits coming in. Bad debts coming down, you are taking market share. But in the European - the West European business which you are still growing as well and putting costs into, the margin on return looks somewhat less attractive probably to phrase it generously. So why so little delta between the two at this point and should we expect more in the future? Thanks.

Answer : Bob Diamond

Delta in what sense?

Further question

Still growing volumes in Western Europe which would seem to be at best a shaky prospect.

Bob Diamond

I will ask Antony to comment. Probably on the compliment you got on the Retail Bank rather than Europe. But I just want you to rest assured there isn't a single business in Barclays that is not going through the same process. So you will see that business on a sustainable basis and comfortably above its cost of equity.

Answer – Antony Jenkins

Well thank you first for the compliment on UKRB. We are very pleased with the performance of that business. I think our ability to differentiate ourselves in the marketplace through the mortgage offers, we have got savings, the branch refurbishments and so on has really started to pay dividends for us. We can see that in the top line and of course we have benefitted from improved impairments. So we feel really good about that story.

In Western Europe, as Bob has said, strategically we are committed to Western Europe. We believe that Barclays can build good, strong, sustainable franchises there. Of course we are dealing with the current short term economic pressures. I will reassure the audience though that whatever part of Global Retail Banking we operate, we have a minimum threshold for new flow business that has to be achieved in terms of return on risk weighted assets. And that threshold is the same across the business. So we maintain it and we look at how we are deploying our risk weighted assets against new opportunities to make sure it is passing that hurdle rate. And so we will continue to invest in Western Europe as we want to build strategically, but on the flow we are absolutely getting the returns we are looking for there at the floor. So Western Europe very committed to that, continue to be building that out strategically. And of course we will continue to expect very good performance in the UK.

Closing Remarks – Bob Diamond

I am just going to wrap up because we do have to move on and we will try and take more questions afterwards as leave the room. But I just want to reiterate, this is about execution. And I think when you look at the team and it is the reason I wanted to introduce the Executive |Committee. If you look at the years of experience, many of us have worked together, it is an incredibly focused together team that has executed on a lot of projects before, a lot of businesses before. So execution is a priority, it is about capital and it is about returns having primacy. That giving us the licence to invest in some pretty good top line income growth and we try to show you how many of those opportunities we have across the Group. So we are very, very excited going forward and appreciate you coming today to listen. Thank you very much,

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