

12 February, 2013

Barclays PLC Strategic Review

Analyst Q&A Transcript

Question 1

Raul Sinha, JPMorgan

Afternoon. It's Raul Sinha here from JP Morgan. Antony, if I can start on slide 60 - apologies to go to the back of the slides - but this is where you talk about your RWA growth indications for the next three years. When I look at that slide it effectively communicates that 75% of the growth in RWAs will come from the non-IB businesses. Is that broadly the kind of shape of capital allocation that we should think about in the long-term for Barclays?

Antony Jenkins, Group Chief Executive

Certainly for the next three years. I think the important thing to emphasize is that when we did the review of the 75 different business units, we did it very dispassionately. So we didn't have a bias about any of them, and frankly business units have to compete for capital based on return. That's our best view of the go forward. But I think it's consistent with our view of the overall shape of the Group, which is over time what we'll see is that the Investment Bank will grow, but it will probably grow less fast than some other parts of the Group. So gradually there'll be a balancing of the Group in that respect. But I think that's a pretty good indication of where we see RWA growth in the next three years.

Raul Sinha

And just a quick point of clarification on the exit businesses that you've talked about. I know that you are closing the SCM businesses as you've said. When I look at slide 11 where you talk about the revenue that you lose from the exit businesses, it looks like about 400 million overall for about 92 billion of RWAs. Is the SCM business included within that, and can you clarify what impact that might have separately on the Group financially?

Antony Jenkins, Group Chief Executive

Well, we say that there's about £500 million of revenue from exiting the SCM business and various other small businesses that we're getting out of. But we're not going to provide more details than that.

Raul Sinha

Okay.

Antony Jenkins, Group Chief Executive

Could I just also ask - we've got a lot of questions in the room - if we could try and limit it to one question per person? I know it's difficult, but pick your best question and... go ahead.

Question 2

Huw van Steenis, Morgan Stanley

Dan Seeness, Morgan Stanley. I was just interested with your targets how consistent they are with the new structure rules in the State's foreign bank operations. Were they embedded in the assumptions here, and if not, perhaps you could give us some initial thoughts on that? You also mentioned in the release about Vickers being less costly than you initially estimated. Perhaps again a little more colour on that, please. Thanks.

Antony Jenkins, Group Chief Executive

Yes. So two questions, but I'll take it as one. I'll take it as one about the structure. So on the what's expired in the US. That is still quite early days, but we believe that the structure that we're proposing will be able to accommodate that. On Vickers, we do believe that the cost will be less than the £1 billion number we talked about in the past, and we're not being that specific yet on quite how much less, but really it's driven by two factors: partly we believe that the market's anticipated the funding cost increase; and partly because we've got a better handle now on what it will take to deliver that operation.

I'm going to move. I'm going to work my way across. So we will take a couple of questions here, and then we'll go to the middle block. So the gentleman in the front row; then the gentleman behind.

Question 3

Andrew Lim, Espirito Santo

It's Andrew Lim from Espirito Santo. Just want to square your different policy review with your core Tier 1 ratio target of 10.5%. I think when all is said and done, that core Tier 1 ratio might be a bit higher than 10.5%, but you're having a different payout policy of 30% of course. So are you aiming to have quite a bit of a buffer above that 10.5% or could we anticipate a higher dividend payout ratio?

Antony Jenkins, Group Chief Executive

Well, of course, if you're right and we have a buffer, then those would be the choices, wouldn't they, to retain more capital or distribute more capital? I think what we're doing today is establishing a baseline set of commitments around the 10.5% and around the progressive dividend policy. Of course, if we're in a position to do better than that, that's a choice that we'll make at the time that we find ourselves in that position. Would you pass the microphone behind you?

Question 4

Sandy Chen, Cenkos Securities

Thanks very much. Sandy Chen from Cenkos Securities. I just had a question on slide 44, just looking at investment banking, and I'm trying to put some things together. In terms of the organic growth for RWAs it's expected it's 15 to 35 billion of a total that should move from £178 billion in risk-rated assets to 210-230 billion. And what I'm trying to square that with is the overall targets in terms of growth and profitability, the RoE targets. And does it bottom line down to aggressive cost-cutting in the investment bank in order to reach the profitability targets that you've outlined?

Antony Jenkins, Group Chief Executive

I think you get there through having to work every lever. So you have to work the balance sheet capital lever, partly through running off legacy assets, and you'll know we've done that successfully with our credit market exposures; partly through deploying capital prospectively to higher returning activities, and driving the cost base down both operating costs and, as we said, compensation costs as they related to income, and we've made the commitment to get to the mid-30s on the compensation to net income ratio. So you basically have to work all the levers to achieve the sort of returns. And crucially, the reason why that matters is because my view of the world is that we're going to be in a period of quite subdued economic growth, and that means that economies are going to grow more slowly; therefore there won't be big organic growth in the profit pools and revenue pools in the market, so we have to shape our business accordingly.

We'll take on here and then I'll go to the centre.

Question 5

Michael Helsby, Merrill Lynch

Thank you, sir. Michael Helsby from Merrill Lynch. I'd just like to ask you about compensation actually for the board. I was wondering if your board compensation's going to be tied to these new targets and whether you're going to communicate that.

Antony Jenkins, Group Chief Executive

When you say board, do you mean the Executive?

Michael Helsby

Exactly, yes.

Antony Jenkins, Group Chief Executive

Yes. Our intent is to align not only the Executive Committee, but also the Senior Leadership Group, which is about 125 people, compensation to the performance of the Group overall on the balance scorecard incorporating the commitment we've made today, and that is what we're implementing in the course of this year, and through next year. So yes, the Executive Committee they will be measured against the targets that we've set. Compensation will be aligned to that.

I'm going to move this way now. Ask the gentleman there.

Question 6

Chris Wheeler, Mediobanca

Chris Wheeler, Mediobanca. You expressed your commitment to the Investment Bank, which I think everybody in this room will probably understand. However, in launching himself again in September, the leader of the opposition made it very clear that one of the key planks to his personal lead launch was breaking up the banks, which, as you know, is a sure-fire vote-winner. Assuming there is a change of government, or your concerns about that, what are your contingency plans to deal with that? Not just in terms of corporate structure, but in terms of obviously keeping the commitment if you want, of the investment Bank to its staff and to its clients.

Antony Jenkins, Group Chief Executive

So I think actually what the Leader of the Opposition said – and echoed by Shadow Chancellor – was that if the banks don't clean up their own act – paraphrasing – then they will. This seems to me to be not dissimilar from the power of electronification that the Chancellor's been talking about incorporating into the legislation around ring-fencing. It's pretty clear to me that if banks aren't seen to be stronger contributors to broad society then a variety of actions will be taken against them. Some of them will be structural and some of them will be financial.

As you know, we already have the bank levy, which is one of those actions so it seems to me that the combination of running Barclays in the right way going forward and delivering the sort of returns we expect for our shareholders is the best defence from that sort of action by the politicians but if we are behaving in a way which society expects then we can, I think, defend against that. So it's really in our gift to demonstrate that we can act in the right way and I'm confident that we will.

Question 7

Gary Greenwood, Shore Capital

Hi, it's Gary Greenwood of Shore Capital. I just wanted to ask you about the European retail bank. I think you said that you were targeting a low single-digit ROE by 2015. I'm just trying to understand, why bother, why not exit that business faster if the return's going to be so low?

Antony Jenkins, Group Chief Executive

Well, I think it's about what we can practically do and that is that we are a significant player in mass affluent in Iberia. I want to protect that franchise but basically this is a significant retreat from both corporate banking and retail banking and if we need to do more in the future we can always do that. So this is a very significant step forward on retail and business banking. And I think the nature of the challenges of the European market are such that as I look across the group and I look at our 75 different lines of business there are places where I can deploy capital and get much better returns than in the European retail business banking arena which is why we're taking the actions that we're taking.

Lots of hands. We'll go to the gentleman just there and then we'll chart our way across.

Question 8

Arturo de Frias Marques, Santander

Thank you. Arturo de Frias Marques from Santander. One question on revenues on the investment banking but not on the impact of, on those businesses that you are exiting but on those businesses that you are keeping. You have said that you are being very conservative on your revenue assumptions. How have you modelled and what kind of revenue losses have you anticipated because of all these new approach, because of tighter compensation rules because of less stuff, because of less RWAs, because of less liquidity, because of focusing only on what adds value to the clients, etc?

How can you model the impact on the revenues of the businesses that you are keeping? Thank you.

Antony Jenkins, Group Chief Executive

Actually, one of the things I feel very confident in is the way we have modelled the business. We broke it down to incredibly granular level looking at 75 different lines of business, looking at the costs associated with them, looking at the revenue potential going forward, looking at how we were positioned and we concluded that actually, in many of the investment banking business lines, there was the opportunity for some revenue growth.

But overall we've been relatively conservative on revenue growth and as the questioner over here observed, we expect a disproportionate amount of revenue growth to come from outside the investment bank going forward so we have factored in all of the items that you identified in your question in terms of the impact on the top line. We do not base this plan on a very aggressive revenue growth target. In fact, it really is a plan that builds up the numbers that we announced this morning for 2012.

Could we go to the gentleman here and then – yes – and then if you pass the microphone forward.

Question 9

Tom Rayner, Exane BNP Paribas

Yes, thank you very much. It's Tom Rayner from Exane BNP Paribas. Just sticking on that similar sort of revenue question because if we look at your 2015 guidance on costs and obviously the cost/income ratio in the mid-50s, we can back out certainly a fairly tight range for revenue growth. And I just want to fully understand; obviously, you've factored in the impact of the RWAs coming down and lots of other issues. To what extent have you factored in things that might be happening beyond 2015 like the ring-fence and any other sort of regulation which may not sort of come into the actual implicit sort of forecast here? Can you comment on that, please?

Antony Jenkins, Group Chief Executive

Yes, I mean, what we've built into the plan is what we know and what we can see and anticipate. We expect that most of the impacts of ring-fencing, for example, will occur post-2015 but where we identify something that happens within the plan period we've included that. And the important thing to note – back to the previous question – is that this 75-unit analysis is really how we're going to run the business going forward and every business unit will be, to put it bluntly, expected to earn its corn in the portfolio. And if a business is not delivering on the trajectory that we expect then we'll cut back on it and there are no favourite, you know, I don't have any special businesses that I'm attached to. They all have to deliver or we'll cut back on them, as we have done.

So I see this as somewhat of a dynamic process, recognising that there is a lot of uncertainty still out there in the regulatory environment. On the other hand, I do think that the amount of uncertainty is beginning to settle and that's allowed us to state, as I said previously, with a reasonable confidence that we think that the costs of implementing the ring-fence, for example, will be lower than we had previously thought.

Tom Rayner

And I don't suppose, as a naughty second one, you would comment on what you think the market estimate for the revenue impact might be.

Antony Jenkins, Group Chief Executive

Well...

Tom Rayner

You've said it's lower.

Antony Jenkins, Group Chief Executive

It's naughty on two levels. It's a second question and, as you know, we don't give forward guidance on revenue so I'll just pass on that one. If you pass the microphone, can we go forward first and then we'll go back? Yes, thank you.

Question 10

Unidentified speaker

Thank you. Can I just follow up on that last point? In terms of ring-fencing you mentioned earlier that you've got some sense of the funding impact from ring-fencing coming in. I mean, I've no clue how to think about that. I've had conversations with some investors. I mean, there's no visibility. How do you get that comfort? Can you elaborate on that, please?

Antony Jenkins, Group Chief Executive

Yes, well, I think it is. I mean, it's talking to investors, it's looking at, you know, the spreads on our debt and so on but our view is that some of that is priced in. Now, we're deliberately not being specific about how much lower than the one billion it is, it's just lower and I think it will become clearer as we approach the actual end of the ring-fencing being created, the process of creating a ring-fenced entity and what's actually in it. But our assumption is what's in it will be essentially the £6.5 million cut-off on turnover for business and then the, you know, the individual consumers will be in it on the liability side and then will match that with high-quality assets.

So we're reasonably confident in the assertion but I would agree that it lacks precision at this point.

Unidentified Speaker

So would you think about exiting businesses if those costs get onerous, is that the implication?

Antony Jenkins, Group Chief Executive

Yes. I mean, my previous comment stands. The 75-unit analysis is a way of running the business, it's not a point in time and we just have to be dispassionate; if a business isn't going to cut it going forward then we have to reposition it or manage it down or exit it.

Unidentified Speaker

Thank you.

Antony Jenkins, Group Chief Executive

Could you pass the microphone – thank you – to...?

Question 11

Jason Napier, Deutsche Bank

Thanks. Good afternoon. It's Jason Napier from Deutsche. Just a question around the costs to achieve on the cost plan. 2.7 billion's sort of towards the top end of the range that we've seen of similar announcements in the industry. The cost objectives by division; a lot of the savings seem to be on closures or retrenchments of operations. Is there a rough split you could give on the 2.7 billion in terms of where it's going to go, perhaps by division or confirming how much of it's for, for example, IT, how much of it might be for legacy asset losses on disposals, retrenchment of staff and so on? Thank you.

Antony Jenkins, Group Chief Executive

Well, Jason, it's a very important question and it's worth spending just a couple of minutes on it because I see this as fundamentally different to the way that we and other institutions have tackled cost in the past. This is really about looking at all of our core processes, figuring out how to automate them, how to take out cycle time, take out defects, take out error, take out rework. And so much of this is not actually about retrenchment or about portfolio disposal, it's about, if you like, retooling the way we do business at Barclays.

We included in the speech a couple of examples. There are more examples in the slide pack but for me, this is really a discipline of constantly looking at how we run our businesses and trying to squeeze cost out, principally through the deployment of technology and that means that a lot of what we spend the money on will be technology based but it isn't a big bang, it's not, you know, we're going to go and buy this massive piece of kit that will solve all our problems.

It's really about having people who work deep in the organisation figuring out how to do stuff better and I've long believed that this is a huge opportunity in financial services and that the organisation that figures it out first or is among the first to figure it out will have a competitive advantage because you can only do it by learning, as we have begun to do in some of the examples that I gave you. So I'm pretty confident that we'll get value on the money that we've spent. We have a list of things we're going to spend the money on but again, we'll only spend it where we think it's going to deliver the sort of yield that we're looking for.

Could you pass to, please, this gentleman? Thank you.

Question 12

Chris Manners, Morgan Stanley

Thanks, good afternoon. It's Chris Manners from Morgan Stanley here. I had a question for you on what exactly transition means because I was looking at slide 43 and structuring capital markets seems to be in the transition bucket, not the exit bucket so, but you're closing it. Does that mean everything in transition will lose that 2.2 billion of revenue as well or how do we think about that bucket?

Antony Jenkins, Group Chief Executive

Yes, the transition bucket is really the bucket that's got about £0.5 billion of revenue loss in it, that's the way to think about it and the reason why it's transitioning is because although we think there are businesses that, you know, can get into quadrant one, in the transition bucket there's more doubt about whether they can, either because of the economics or because of the reputational issues. So they're either transitioning out or they're transitioning up, is why we called it that but you should think about the 0.5 billion in that bucket.

Chris Manners

Okay, so the exited revenue will be the 0.5 billion in the transition bucket plus the 0.4 billion in the exit bucket so about a billion or so?

Antony Jenkins, Group Chief Executive

It's probably about 0.5 billion in total. I would have that number in your mind.

Chris Manners

Thank you.

Question 13

John-Paul Crutchley, UBS

John-Paul Crutchley from UBS. I wanted to ask you a slightly broader question, Antony. When we look at where we are in the industry at the moment, the legacy issues and costs we're facing, I mean, they're not Barclays specific, they're largely industry issues and they're issues which were seen as commonplace, you know, back at the time when people were writing things like PPI and whatever else.

So I understand how you've looked at the businesses and how you're looking to rearrange but how do you go about trying to change the way you do business to ensure that in five years' time we're not talking about legacy costs associated with this or that or something else? Because it does require potentially standing aside from what everybody else in the industry is doing at a certain time because it's not the right thing to do, or looking to fundamentally change the way that the economics of the UK banking model works, which seems to be very much, you know, pushing on one particular source of revenue to the source of, you know, actually a more robust charging model across the entire industry.

I just wondered to what degree that you could actually lead that process forward to make sure that, you know, these genuinely are behind us when we put them behind us.

Antony Jenkins, Group Chief Executive

Well, I think that is the fundamental challenge that confronts the industry, is to make money in a way that delivers real value to customers and clients. Now, I think we've made a lot of progress in Barclays on this topic in the last two or three years and when I think about our retail bank, the way they're providing products now like a springboard mortgage which is designed to help one generation fund a mortgage for another in a very fair and transparent way, the way we've completely stopped selling investment products in the branches because we don't think we can do that in a way that's consistent with our values, the way that we've stopped selling packaged accounts but we give customers a menu of choices they can make, our deployment of our mobile banking app which has over a million people using it now, with net promoter scores of 63.

So typically banks have a net promoter score of in the single digits. This has 63, Apple is 67 so through the deployment of new technology, new capabilities, thinking about transparency, living by the values and behaviours, you can create a business which is more sustainable because what I fundamentally believe is, we have to avoid these conduct issues of the past through running Barclays differently. And I believe when you combine that with the plan we've laid out on returns, it makes it a much more investable proposition for everybody looking at the stock because it should be a more certain proposition. That, I believe, is the way the industry should operate. I can't control the industry but I can control the way that Barclays will operate and my executive committee and the board are 100% behind that approach.

Right, we'll go over to this bank of people here so we'll go right to the back and then forward.

Question 14

Manus Costello, Autonomous

Thank you, it's Manus Costello from Autonomous. Can I ask a question about capital, please? I look at what you've committed to today. You're talking about an incremental just over 50 billion of RWA reduction versus what you've previously communicated. You've also reconfirmed a recent commitment to issue six billion-ish of tier one cocos. Should we assume that those two measures give some indication of the size of the capital deficit which the FSA finds in its capital review at the moment for Barclays, can we assume that you've now addressed any outstanding capital issues once and for all with those two measures?

Antony Jenkins, Group Chief Executive

What I can say is that we have a very detailed capital plan that's aligned to the financial plan we've described today. We've shared that extensively with the FSA at all levels of the organisation, including me personally, and we're very comfortable with our direction of travel on capital and we're very comfortable with how that's viewed by our regulators.

Question 15

Unidentified Speaker

Could I ask on the legacy asset reduction, you're still going to have quite a bit of legacy assets left by 2015. Is that because you don't want to take hits or you're just letting them roll off? Could you not be a bit more aggressive in terms of timing?

Antony Jenkins, Group Chief Executive

I think that question is really a question of economics. If we feel that we can exit things in an economically viable way we will but we don't want to take huge haircuts on positions if that's not – that's not going to bring any value to our shareholders if we do that. We're very happy with the flight path of the legacy assets reduction.

Unidentified Speaker

Sorry to ask a follow-up but if you just went forward, the 36 billion would go to zero by another five years after 2020 or just naturally?

Antony Jenkins, Group Chief Executive

Yes, I think, probably a bit shorter than that but as you'll imagine, it's hard to forecast out that far. I think we have another question here at the front, then we'll take some questions from the web.

Question 16

Andrew Coombs, Citi

Afternoon, it's Andrew Coombs from Citi. Just a quick question on your revenue growth targets. At a group level you're looking at 29 billion of revenue going to 32 if you back out from your implied cost/income target. A large proportion of that seems to be driven by UK retail and Barclaycard where you're looking for mid single-digit growth and going from 4.2 to five billion or over five billion on Barclaycard.

Public commentary on the call this morning that net interest margins would probably be stable/flat going forward so did you mean that's entirely driven by market share growth, volume growth? So perhaps you could elaborate a bit on there and what you're seeing both in terms of UK retail and Barclaycard and the wider environment for competition.

Antony Jenkins, Group Chief Executive

Yes, I think that's a very good analysis of the direction of travel on the topic of revenue growth. I would say the businesses, Barclaycard and the retail bank, have performed extremely well in the last two or three years and we have continued to take share from our competitors. And if you look in the results that we announced today you can see that, the growth of our mortgage group in the UK, for example. So I am confident, actually, that the volume drivers of that growth trajectory are achievable and the more we do the sort of things that I was describing in response to JP's question about how we run the business, the more we have products and services which are really compelling for customers, the more we'll be able to take share from our competitors. So I'm very comfortable with that.

I'm going to move now, take a few questions from the web so I'll just read them out because it'll be easier that way. The first one is, what are the most significant observable hurdles you foresee between now and 2015?

So I would refer back to the speech where we detailed a number of the issues that we feel are potential risks to this plan. One is the economy and if the economy becomes significantly worse than it is today, that could be problematic. The second is regulatory environment and although previously I said that I expected more clarity and more stability and regulatory change, there's always the possibility that some regulatory requirements could affect the plan.

The third is legacy issues and we do have a number of legacy issues at Barclays, as you're all aware. I expect it will take a number of years for those issues to be resolved but they will be resolved. And then finally, the biggest risk is execution risk and that's down to me and my team and we're confident that we can deliver this and I just want to make a comment about that.

I was asked earlier about the executive team and I just want to say that I do have confidence in each and every member of the Barclays ex co. They are totally behind this plan and they will deliver it under my leadership.

There's a question here about dividend policy. It says, do you intend to progressively increase payout towards 30% starting in 2013? No, we said we would start to pay out in 2014 and move progressively towards 30% over time.

I think that concludes all the questions we have on the web. I don't think we have any phone questions so I think I'll take just one or two more questions in the room and then we can call it a day. The gentleman at the back and then the gentleman here and then we'll call it.

Question 17

Rhonit Ghose, Citi

Thank you. It's Rhonit Ghose from Citi. Antony, you've spent a lot of time in your brief period as CEO thinking about the social, moral, ethical dimensions of being a bank leader in this time and age. When I think about the return target that you've set out and also the profitability of other banks in the UK, as the business that affects the population the most, retail banking, you're talking about high teens ROE and Barclaycard, 20%-plus ROE. Is that socially acceptable, to have twice the cost of capital?

Antony Jenkins, Group Chief Executive

I think, particularly in the Barclaycard business, what – remember that in the Barclaycard business there's not just lending businesses, there's also payment businesses which consume very low capital and therefore those returns are, I think, the right returns for those types of businesses. We believe that those returns will remain broadly stable over time and we think they're appropriate returns given the capital that we've got deployed against them.

But you're right, it's something that we have to keep an eye on and if we continue to innovate and continue to do the right things for customers, we continue to deliver a better customer experience then I think we can justify those returns.

The final question from the front here.

Question 18

Unidentified speaker

If you look at the profile of GDP growth across the geographies that you are concentrating over the next three years, I would have thought Africa probably stands out as the one which has got the best prospects of GDP growth. But when you look at the RWA and for the capital allocation you want to give to that business, you're saying 2012 RWAs of 27 would only go to 28 to 30 billion over the next three years. Is there some element of repositioning within that business or is that just a very cautious appetite for growth there?

Antony Jenkins, Group Chief Executive

I think it's a combination. Firstly, it's just the size of the absolute market is relatively small even though the growth rate is much higher. Secondly, as you know, we are conservative in terms of our risk appetite and I do think there will be some reallocation within the portfolio over time. But I think that it's essentially a question of the size of the market. I do believe, though, that Africa will be a very good market for us going forward.

On that note, ladies and gentlemen, I will conclude the meeting. I thank you very much for your attention. If you have more questions, of course, our investor relation colleagues are at hand to help you. Thank you very much indeed.