

Barclays PLC FY 2014 Results**Analyst and Investor Fixed Income Conference Call (edited transcript)**

Tushar Morzaria, Group Finance Director

Slide 2: Tushar Morzaria, Barclays Group Finance Director

Good afternoon and welcome to our full year results Fixed Income call.

The purpose of this call is to provide our fixed income investors and analysts with the opportunity to hear about our full year results and to do so in a way that is relevant to your interests, and to have the opportunity to ask questions.

I am joined here by Dan Hodge our Group Treasurer and Steven Penketh, our Head of Capital Markets Execution.

Slide 3: Summary Group financials

I propose to keep this overview brief as I know most of you will have listened in to the main results call this morning. If you did, you will have heard Antony and me talk about how we have meaningfully changed our business in 2014 and at the same time improved its financial performance and strength. We've increased Group adjusted profit before tax by 12% and attributable profit by 27%.

We operate in a challenging macro-economic environment and so continue to manage risk carefully and reduce our costs. Impairment improved 29% in 2014 due to a £732 million reduction in Non-Core to £168 million and an 8% reduction in Core businesses.

Group adjusted costs were down 9% year-on-year driven by savings from Transform programmes, including a 5% net reduction in headcount, and currency movements.

Compared to income, which was down 8%, this gives us positive jaws. As the slide shows we have made a number of adjustments to our numbers in order to explain our statutory profit before tax which was down 21%.

We firmly believe that our core franchises are strong and that as we execute our strategy we reposition the Group for diversified, sustainable and less volatile earnings.

Slide 4: Strengthening key financial metrics

Moving to slide 4 and our key financial metrics, we continue to maintain a sharp focus on our balance sheet, capital, liquidity and funding positions. You will see that we made good progress on improving our regulatory capital and leverage ratios, despite the headwinds from conduct provisions

Dan will go through the detail behind these numbers shortly. What I will say is that we expect our capital and leverage metrics to continue to improve, as we grow earnings and manage the Group's balance sheet in a disciplined manner, putting legacy conduct and litigation issues behind us.

So with that I'd like to hand over to Dan for the main focus of the call, after which we'll take your questions.

Dan Hodge, Group Treasurer

Slide 5: Dan Hodge, Barclays Group Treasurer

Thanks Tushar, and good afternoon everyone. I expect by now that participants are familiar with the format of this call. I am going to cover what I see as the key take-aways from our 2014 full year results for Fixed Income investors and give you our views on capital, liquidity and funding as well as regulatory reform. I will be relatively brief so that we have plenty of

time for Q&A at the end. Tushar, Steve Penketh, our Head of Capital Markets Execution, and I welcome your questions

2014 has seen significant progress for Barclays in terms of strengthening its financial metrics. Our CET1 ratio has increased to 10.3% from 9.1% in 2013. We have made excellent progress in the run-down of Non-Core and organically accreted capital while absorbing significant items. We are well on track to meet our target of greater than 11% by end 2016.

Our BCBS leverage ratio has increased to 3.7%, already close to our target of over 4% by end 2016. We continue to maintain a robust liquidity position and well balanced funding profile and have managed to consistently exceed both internal and regulatory minimum requirements.

At the full year our liquidity buffer stood at £149 billion, comprising high quality unencumbered liquid assets with an estimated LCR of 124%, representing a £30 billion surplus to 100%. Our longer term funding structure also remains robust. Barclays Net Stable Funding ratio was 102% based on the BCBS rules published in October 2014. Our funding profile remains well balanced with a loan to deposit ratio of 89% in retail and corporate businesses, and 100% for the Group as a whole.

We saw important progress on a number of regulatory items last year, most notably on ring-fencing in the UK, Dodd-Frank in the US, bail-in, resolution, TLAC and leverage. At the turn of this year we submitted our initial ring fencing plans to the PRA, as well as detailed Intermediate Holding Company plans to the Fed. While the implementation dates for many of these initiatives are a few years away, planning for future capital, liquidity and funding requirements is critical, in order to facilitate an efficient transition.

During this multi-year transition period, Barclays aims to take a long term and sustainable approach to investor interests, as we match commercial considerations with regulatory requirements. Our 2014 results contain additional detail regarding our intra-group funding arrangements to assist investors in understanding the evolving regulatory environment.

Slide 6: Good progress on CET1 ratio towards 2016 Transform target

Let me turn now to a more detailed look at the strengthening of our capital and leverage position on slides 6 and 7.

Starting with capital, at the end of 2014 our CET1 ratio was 10.3%, a 120 basis point year-on-year improvement. This was significantly above the annual rate of accretion of 50 basis points I identified at the half-year as necessary to achieve our targeted 2019 end state.

This significant uplift in our ratio in 2014 was driven by a £41 billion reduction in RWAs, principally from the run-down of Non-Core, and a £1.1 billion increase in CET1 capital, after absorbing £3.3 billion of adjusting items. If we include the impact of the sale of our Spanish business, completed on 2 Jan 2015, our CET1 ratio was 10.5%. A 10.3% CET1 ratio represents a £13.2 billion buffer over our AT1 trigger of 7%.

Further, I would remind investors that Barclays CET1 ratio remained above the 7% PRA defined minimum in both EBA and Bank of England stress scenarios. This was despite their stress test scenarios being based on a lower year end 2013 starting point of 9.1%.

Looking forward we are confident of further CET1 progression towards our target. We expect that further reductions in Non-Core RWAs will be broadly matched by business growth in our core PCB, Cards and African businesses, such that further ratio progression is expected to be driven by increasing organic earnings. The progression in the ratio will not be linear quarter to quarter. You should expect to see variations in the ratio from movements in seasonal activity, disposals and growth, as well as business as usual movements in capital deductions and other regulatory adjustments.

Importantly we have flexibility in our capital plan that gives us room to adapt to any headwinds such as litigation and conduct risk.

Slide 7: Leverage ratio progression ahead of plan

Turning now to leverage on slide 7, our BCBS 270 leverage ratio increased to 3.7% at the year end, continuing the quarter on quarter progression we have recorded since the PRA leverage review in the summer of 2013. BCBS leverage exposure has reduced significantly from over £1.5 trillion on a PRA basis in June 2013, to just over £1.2 trillion on a BCBS basis at year-end 2014, despite the stricter basis of preparation. This decrease was driven principally by reductions in Non-Core and Core Investment Bank exposures.

While it is unlikely that the high pace of reduction in leverage exposure over the past 18 months will be sustained, we still have additional capacity to reduce leverage exposure further, including in Non-Core, where our £180 billion end 2016 guidance is nearly £100 billion lower than the £277 billion level at 2014 year end.

We note the outcome of the FPC's leverage rules, which established a fully phased-in leverage ratio, pre-counter-cyclical buffer, of 3.7% for Barclays. This means no change is required to our current plan to exceed 4% in 2016.

Slide 8: Continued progress on the transition towards our 'target' end-state capital structure

Turning now to slide 8, the format of which will be familiar to many of you. As we show on the slide, the PRA has updated its Pillar 2A requirements for Barclays, as part of its annual review of all UK banks. Our current requirement is now 2.8%, an increase of 30 basis points on 2014, which equates to a 1.6% CET1 requirement, up from 1.4% last year.

The risks covered by Pillar 2A have not increased materially, and remain broadly unchanged in the PRA's estimation. The percentage increase we have seen instead is principally a result of lower Group RWAs. This is because Pillar 2A is expressed substantially as an absolute capital add-on, which we convert to a percentage, rather than as an outright percentage of RWAs.

Our current target end state CET1 ratio remains in the 11.5% to 12% range, comprising 4.5% minimum requirement, 4.5% combined buffer, 1.6% Pillar 2A, and a management buffer of between 100 and 150 basis points. Our target structure includes this internal management buffer above future mandatory distribution restrictions in the interests of debt and equity holders alike.

Barclays total capital ratio at the end of 2014 was 16.5% on a PRA transitional basis and we continue to target an end-state total capital ratio of greater than 17%. We may refine our target once we have greater clarity from the FSB on TLAC requirements and guidance from the PRA on the implementation of MREL.

Slide 9: Transition towards a holding company capital and funding model

The next two slides refer to our HoldCo / OpCo capital and funding structure and an indication of our current thinking on loss absorbing capacity. These topics are very much linked in our view.

As part of the transition to our end-state capital structure, and in order to meet the request of the Bank of England to be a single point of entry group, we intend to issue substantially all our public benchmark term senior unsecured debt, together with our capital, out of Barclays PLC, the Group holding company. We expect shorter dated unsecured funding, structured notes and secured funding will continue to be issued at the operating company level. Some subsidiaries, such as BAGL, may issue some capital in local markets too, as part of meeting local regulatory requirements.

We continued our progression to this model in Q3, with the issuance of USD tier 2 and both USD and Euro term senior unsecured debt from Barclays PLC. We have already issued all our AT1 from this entity, including the £2.3bn of AT1 we exchanged with legacy Tier 1 capital holders over the summer of 2014.

This proactive transition towards a holding company capital and funding model provides a good starting point to meet potential future Total Loss Absorbing Capacity (“TLAC”)

requirements. However, as we wish to better align the credit proposition for Barclays investors throughout transition, we do not currently intend using HoldCo senior debt proceeds to subscribe for OpCo liabilities on a basis that subordinates them to current OpCo term senior unsecured funding until required to do so. In other words, we intend to subscribe for OpCo senior liabilities, so that HoldCo's senior claim ought to rank pari passu with OpCo senior debt¹. This approach is already evident in the down streaming of 2014 HoldCo issuance.

I will use slide 9 to draw out what this means from a senior unsecured creditor's perspective, when evaluating their relative ranking at HoldCo and OpCo throughout the transition period. If HoldCo raises senior unsecured term debt and uses the proceeds to subscribe for senior unsecured term debt in OpCo on matching terms, HoldCo has a senior claim on OpCo that should rank pari passu with any claim of the OpCo's other third party senior creditors.

Barclays PLC is a relatively 'clean' non-operating holding company that is without legacy obligations or outstanding non-CRD IV compliant senior and subordinated debt. Adopting this strategy should therefore give HoldCo term senior debt holders, via HoldCo's claims against the OpCo, a claim that is comparable to other OpCo term senior debt holders. This in turn ought to mitigate against the risk of structural subordination at HoldCo during transition.

HoldCo's liability, and those of its investors by extension, is limited to the investments that it has made in the OpCo, Barclays Bank PLC, and the relative ranking of those investments. The principle of resolution respecting the creditor hierarchy and that 'no creditor should be worse off' in a bail-in than they would have been in insolvency, add additional weight to the proposition.

We appreciate that understanding this issue is key for the market. Accordingly we have given further detailed disclosure of our HoldCo balance sheet in order to show more clearly how the proceeds of each of its issues have been utilised.

¹ The text of this sentence in the published script has been amended to correct the live transcript.

Slide 16 in the appendix gives a snapshot from our 2014 Annual Report disclosure, which can be found on page 260 of the report.

There is, of course, some way to go in the TLAC debate, the conformance period for which is currently expected to be to 2019. Until we have arrived at a final regime with settled requirements nothing is for certain. In addition, we note that in the EU MREL requirements are expected to be finalised with transitional implementation from 1 Jan 2016 and we are expecting a consultation first from the PRA in the coming months, which we also expect to be informed by the ongoing FSB TLAC debate.

We note the broad power under the BRRD for the Bank of England to require an element of contractual subordination in MREL eligible liabilities and the remaining uncertainties relating to how this will impact MREL eligibility and conformance requirements may require us to change our approach.

As always, with such sources of uncertainty, our approach has been to identify potential risks for investors and, where permitted to do so, seek to mitigate against them at any point in time. We think our current proposals do that and we continue to engage with regulators to ensure that transitional arrangements truly provide transitional relief. Irrespective of TLAC and MREL transitions, it is reasonable to expect that in the end state, under current draft proposals, HoldCo's investments in its OpCos will need a degree of subordination.

We further note that UK ring-fencing will require the separate establishment of new sister entities to Barclays Bank plc, both the ring-fence bank itself and one or more service companies designed to meet the requirements for operational continuity under new UK resolution guidelines. With multiple sister entities, the relative position of holding company debt holders becomes much more dependent on the relative quantum and form of investment across our future subsidiaries.

However, HoldCo debt holders do, and will continue to, benefit from the diversity of profits up-streamed from multiple OpCos. In the future, a HoldCo investment will be the most comparable to a Barclays Bank PLC investment today. We will continue to update investors

as the implementation date for ring-fencing approaches, which we currently anticipate to be in early to mid-2018.

Slide 10: Proxy Total Loss Absorbing Capacity (TLAC)

Turning to slide 10, I would like to spend a few moments discussing our illustrative thinking on the potential quantum of TLAC and what it might mean for Barclays. As mentioned earlier, there is still uncertainty around the quantum of TLAC banks will need to meet, and what the final rules will define as eligible instruments.

We note that the draft FSB term sheet states 16% to 20%, to which will be added a combined buffer requirement, and, for UK banks, Pillar 2. We would then expect to hold a management determined internal buffer above the aggregate regulatory target. As the table on the slide illustrates, taking all capital and term non-structured senior unsecured debt of the Group with a maturity of over 12 months, gives a proxy TLAC ratio of 24% at end 2014, of which 4.5% would be used to meet the combined buffer requirement.

This suggests that with the conformance time available, meeting the requirement should not require a significant change to the capital and funding profile of the Group.

Much of the OpCo term senior unsecured funding falls due for refinancing during the conformance period, which we intend to refinance at HoldCo. This thereby mitigates the extent of structural subordination of HoldCo creditors compared to OpCo creditors even after the introduction of any requirement to subordinate downstream instruments. We feel we are well placed competitively to transition to a HoldCo funding structure as it is mainly a task of refinancing existing OpCo term debt already outstanding. We also currently assume that subordinated debt issued by material subsidiaries, or OpCos, will count towards TLAC because in resolution and insolvency it would absorb losses before senior debt of either HoldCo or OpCo.

This TLAC estimation would further benefit from meeting our higher end state CET1 target and further AT1 issuance to meet our 2% of RWAs target.

As TLAC rules are finalised and as we approach the implementation date, we will be in a better position to assess the appropriate composition of TLAC that meets our regulatory and commercial requirements, and the preferences of the market. We expect final clarity on TLAC requirements by autumn this year.

The eligibility criteria for potential qualifying instruments for MREL are broad and we believe that for GSIFI banks in Europe, MREL eligibility will be calibrated to be consistent with FSB TLAC proposals without creating an additional constraint.

Before leaving the topic of regulation I would like to make a few comments on structural reform before returning to liquidity and funding.

As many of you are aware, the first set of ring-fencing consultation papers were released in early October of last year, and included a requirement that ring-fencing bank groups submit their high level preliminary plans for achieving compliance with the Banking Reform Act. These plans were submitted in early January to our UK regulators, and are currently under review. Our plans include an expected shape of Barclays ring-fence bank which will be a broadly diversified sister entity to our existing operations, and which will be the primary face of Barclays to the UK domestic retail and corporate banking market. As noted earlier, our plans also involve the establishment of a service group for operational continuity and cost optimization for all parts of the group, in line with UK regulatory guidance.

Of course, there will be significant restrictions on UK ring-fence banks, in particular restrictions on non-EEA branching, derivatives and market making activities, and business conducted with other financial institutions. This results in substantial operations in all of our businesses – PCB, Barclaycard, and the Investment Bank, as well of course our African business in its entirety – which will not be in the ring-fence.

We continue to work with the regulators to understand more fully the parameters for those businesses which may “straddle” the ring-fence from a product or customer inclusion or exclusion perspective. As we seek to provide the best “Go-To” experience for our customers, while optimizing our capital and liquidity resources, we expect the final shape of the group to continue to evolve.

We thus caution investors to not draw premature conclusions on the shape of the group post-ring-fencing. We expect to continue our discussions internally and with regulators, and hope to provide additional detail over the course of the year as our plans come closer to finalization.

Separately, in the US, we are further along in our design, having submitted our implementation plan for compliance with Section 165 of the Dodd-Frank Act at the end of last year, along with the other large Foreign Banking Organizations in the US. Our plans are being reviewed by the Fed, but we are well underway with actual program implementation. We're confident that we will meet our key milestones in the US. These include firstly, the movement of non-branch operations under our new Intermediate Holding Company, which will be regulated by the Fed under Bank Holding Act requirements, by 1 July 2016. And secondly, compliance with US local leverage and capital requirements, by 1 January 2018.

We will also become subject to the CCAR stress testing regime starting with a draft submission for year-end 2017. We view CCAR as a critical piece of new functionality for our US operations, one that will enable us to operate successfully and safely in a critical Barclays home market.

Slide 11: Maintaining a robust liquidity position, with pool well in excess of internal and external minimum requirements

Slide 11 provides what is hopefully a familiar overview of our liquidity position. I don't intend to spend very much time on the detail as our liquidity position remains consistent and robust, both in terms of quantum and quality. I have already highlighted that our key ratios are in excess of regulatory standards and indeed, ahead of the required implementation dates in the case of LCR and NSFR.

The increase in the size of the liquidity pool year-on-year reflects our dynamic approach to liquidity management and ensured our LCR remained above 100%. This increase in liquidity also deliberately pre-funds potential contractual and behavioural outflows as a

consequence of the potential loss of A-1/P-1 short term rating and reduction in the long term rating of Barclays Bank PLC, as credit rating agencies assess sovereign support notches in its ratings.

Following the S&P action in early February downgrading our HoldCo, Barclays PLC - as opposed to our OpCo, Barclays Bank PLC, we have seen a modest and entirely pre-funded level of outflows as counterparties position themselves ahead of the outcome of the Barclays Bank PLC credit watch negative outlook expected later this year.

Slide 12: We maintain access to stable and diverse sources of funding, across customer deposits and wholesale debt

Finally, before summing up and handing back to Tushar, I would like to turn to slide 12 on funding.

We continue to maintain a well-balanced funding profile as demonstrated by our loan to deposit ratio of 100%. The retail LDR, which excludes the Investment Bank and wholesale Non-Core, was 89%, compared to 92% at the half year. However, if you take account of the amounts of liquidity held against the contingent stress outflows of the retail businesses, the retail LDR is close to 100%. This means that our retail businesses are self-funded by deposits and in turn that our investment bank does not rely on deposits to fund itself.

Moving to wholesale funding, we issued £15 billion of public benchmark and privately placed debt in 2014 against £24 billion of maturities. Our gross issuance included: £8 billion of public senior term unsecured debt in a variety of currencies; £5 billion of secured funding; and £0.8 billion of tier 2. In addition we issued £2.3bn of AT1 via an exchange offer.

We saw consistently strong investor demand for these transactions for which we would like to express our gratitude.

For 2015 you can expect us to look for issuance opportunities across unsecured, secured and debt capital of between £10 and £15 billion, compared to overall maturities for the year of £23 billion. The £23 billion of maturities includes £9 billion of privately placed structured notes, which will not be replaced in full, as we rebalance our mix of liabilities towards instruments more likely to be eligible for TLAC.

With regard to our AT1 and T2 instruments, you can expect modest issuance on an annual basis over the next few years in accordance with our prudential capital plans. In addition, as stated earlier, as our senior term or dated subordinated debt matures, we will look to refinance it from HoldCo. TLAC eligibility will play an important part in our thinking, especially around duration. The precise quantum and mix, however, will depend on evolving regulatory requirements and market conditions, but maintaining access to stable and diverse sources of funding remains a priority.

Slide 13: Summary

So let me conclude on slide 13, before handing back to Tushar who will open the call up to Q&A.

Barclays has made material progress this year on a number of different fronts. Following May's strategy update we have made significant progress transforming the business, making it simpler and more balanced so that it delivers a more stable, less volatile financial performance with a clear trajectory of capital, leverage and return improvements for the Group.

We continue to benefit from the diversity of the businesses in Barclays core portfolio and we are positioning ourselves for future growth that the managed sell down of Non-Core allows. We continue to work with regulators to develop our plans linked to structural reform and remain committed to sharing these with the market at the first practical opportunity, once they are sufficiently finalised.

We recognise the sources of uncertainty that remain around bail-in, TLAC and single point of entry and are committed to working with regulators and investors to making this transition as smooth as possible.

Our commercial strategy is underpinned by robust capital, liquidity and funding plans that are designed to adapt to changing business and regulatory environments.

Tushar, back to you.

Tushar Morzaria, Group Finance Director

Thank you and with that I'd like to open the call to questions. As a reminder, I am joined here by Dan Hodge, Group Treasurer, and Steven Penketh, Head of Capital Markets Execution. So, questions please.

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