

Barclays PLC**Full Year 2013 Results****Fixed Income Analyst and Investor Conference Call Q&A Transcript****Tushar Morzaria, Group Finance Director****Dan Hodge and Peter Freiling, Acting Co-Treasurers****Steven Penketh, Head of Execution of Capital and Term Funding****Rupert Fowden, Head of Capital and Leverage Management****Jackie Ineke, Morgan Stanley**

You mentioned about your additional tier one and where you see your final capital position. Can you give us any more details on the timetable for getting there by 2019 and for this 150-basis-points-plus part of the pillar 2A?

Secondly, on the banking reform bill that went through the UK parliament in December. In terms of the ability now to bail in senior bondholders, if there's any disaster and the bank needs to be resolved, I'm just wondering about the support notching in the Barclays senior debt rating and if you're having discussions with the rating agencies about that at the moment?

Dan Hodge, Acting Co-Treasurer

I think your question was on our flight path and how we expect to get those end levels that we talked about. The best way to answer that is probably through a simple illustration. If you assumed a 12% CET1 end state in 2019 – and that's at the top of the range that I quoted earlier – we'd need to accumulate capital at a rate of about 50 basis points per annum over six years, which is the equivalent of about £2 billion capital per annum. So, whilst we wouldn't expect there to be absolutely smooth accretion every quarter, you should see a trajectory of that nature to reach that 2019 state, and that would include the Pillar 2A levels that we talked about.

In terms of the AT1 profile, we're not accelerating our issuance of AT1 for leverage, above and beyond those issuances we've already made, and so we don't have any kind of firm plans around timing, save for needing to reach the 1.5% level by 2019 that I quoted earlier.

Steven Penketh, Head of Execution of Capital and Term Funding

Under the banking reform bill, Jackie, as you said, that came in very recently, ultimately the bail-in tool has been pretty much priced into the UK bank capital markets for quite some time since the Banking Act in 2009. The banking reform bill itself doesn't actually do any more than the Recovery and Resolution Directive is proposing to do under the European legislation. We have of course seen the statements that have come out from the rating agencies around systemic support generally. I think that our understanding at the moment is that rating agencies are likely to move across the piece for the European banking sector, but we know no more of that than the public records that have been put out so far.

Jackie Ineke

Thank you. So, the fact that the senior debt bail-in is with us now in the UK whereas for the RRD it's coming in by 2016... there's not been any discussions with the agencies on that at the moment?

Steven Penketh

No. There hasn't.

Corinne Cunningham, Autonomous

I have a question relating to slide six where you show your total capital ratio at the end of the year of 19.9%... what would that look like if you cast it on 1st January 2014 under Basel III?

Rupert Fowden, Head of Capital and Leverage Management

We would see an increase in the risk-weighted assets so our total capital ratio would drop to nearer 15.5% on a CRD IV basis. For our CET1 ratio, we have published that already. It is the 9.3% number you've already seen.

Corinne Cunningham

The second bar talks about the Total Capital Ratio possibly including senior unsecured, but I think in the comments that Dan made, he was talking about Tier 2 making up the total there. Can you give us a bit more clarity about whether you really intend for that 17% to be fully subordinated? In terms of the target, from a day-to-day basis you can't cover every eventuality, but in terms of your intention, would it be that the 17% is built up mainly of subordinated?

Dan Hodge

Yes. I'd say our current expectation remains that the 17% of PLAC would be met through Tier 2. However, it's also possible that the eventual PLAC requirement could of course be higher than that. We'll be guided in the large part by the market on the optimal combination of sub-debt and senior unsecured to meet the eventual PLAC total.

Corinne Cunningham

Did that lie behind your comment that legacy Tier 1 can still have intrinsic value as PLAC? So, we should pay attention to that sentence, should we?

Dan Hodge

Yes, you should.

Robert Smalley, UBS

Just by way of background, could you talk about the methodology behind the 1.5% management buffer – for example, why did you come up with 1.5%, why is that sufficient, and some of the thinking there?

Tushar Morzaria, Group Finance Director

Yes. The buffer is no more than 1.5%, and we will recalibrate it over time. Now that we have transparency around our Pillar 2A requirements and are able to share that with you, you can see that our thinking prior to this call had that 1.5% in mind. As we progress forward we will continue to think about the likelihood of things like countercyclical buffers, sectoral buffers applying, or, to the extent that they have been applied, the likelihood of them changing. So, I wouldn't call the 1.5% a fixed amount. It's something that we'll continue to recalibrate over time, but I suspect it won't be much higher than 1.5%.

Dan Hodge

I'll add that the size is dependent essentially on the level of volatility of our capital ratio through risks that aren't already being captured in Pillar 1, 2A, and our buffers. To the extent to which we do have 2A starting to capture things like operational risk and interest rate risk on a banking book, there would be a recalibration. As Tushar said, it's too early to be definitive about the end level. I think the important factor is that we've sized the buffer to ensure we don't risk falling into the territory of the mandatory distribution restriction as well.

Tushar Morzaria

Yes. That's sacrosanct for us, so absolutely that will be front and foremost in our calibration of our management buffer.

Robert Smalley, UBS

OK, and on slide six you have the 2.5% capital conservation buffer. I guess over time you're looking at that, maybe that goes down and the counter-cyclical buffer grows. In your own plan are you looking at that as a 'one-for-one' exchange over time, depending on where the economic cycle is?

Rupert Fowden

Certainly for the conservation buffer of 2.5%, I don't think that's likely to change. In Basel, it is quite clear. The systemic buffer, which is roughly 2% for us, that might change as that's a relative metric dependent on the size of our activity compared to other banks. We're going to look at that quite closely. And then as you rightly say, you've got the counter-cyclical buffers that could come in the future as macro-economic conditions improve. We'll monitor those closely as they come. We're expecting to get at least a year's notice before they come, and we'll build up accordingly when that happens.

Robert Smalley

Okay. If I could ask a quick question about the fixed income business, could you talk a little bit about your hurdle return on equity there, what is it? And then I know in the past Barclays was one of the first banks to really successfully bring together its lending business and its fixed income business in order to win new mandates. Is that still the case, are you still using the balance sheet as a leader to win fixed income business, and if so, how are the capital charges apportioned up between the bank and the investment bank?

Tushar Morzaria

The return, or hurdle rates, for our fixed income business - we don't publish specific hurdle rates for any of our individual divisions, but the general rule is that each division should generate a return on equity in excess of its own cost of equity. I think if you look at the Investment Bank, in aggregate, based on 2013's performance, it's a little below that. We're committed to repositioning and going through a transition phase in the IB to make sure we do reach those hurdle rates, and that'll be not only just for the fixed income division but for all component parts of it.

In terms of the interplay between the pure investment banking business and our broader lending business, I think you're referring there to the Corporate Bank. We actually do manage that in a fairly integrated fashion, so the management of the Investment Bank are actually overseeing the Corporate Bank as well. We actually call it internally the Corporate and Investment Bank.

So the linkages there are actually quite strong, and the fluidity of business across banking and markets is relatively seamless for us. However, we are very strict about capital allocation to ensure that we're generating the appropriate returns, and making sure we're pricing resources appropriately both from a funding and capital perspective.

Dan Hodge

Picking up on how we allocate capital. Following the substantial work we've done around leverage, we're in the process of implementing updated capital allocation methodology. It's going to continue to be based on risk based measures as the primary business constraint, and not just RWAs. We're going to be incorporating CRD IV leverages as a backstop.

So as we move towards allocating capital on a CRD IV basis, including Pillar 2, we will essentially end up applying a charge to leverage intensive businesses. And the way that we'll do that is where we have to issue AT1 for leverage purposes, the cost of that additional issuance will be allocated to the businesses that have driven those leverage demands.

Muriel Perren, Morgan Stanley

We understand from the EBA Q&A at the end of last year that non-step Tier Ones will get grandfathered as Tier One, from a tier one perspective, not the leveraged ratio perspective, and that the non-grandfathered part of this non-step would feed into tier twos. Is that your understanding too? Quite separately from the fact that it could count as PLAC capital, of course.

The second question is on your CCN, the Tier 2 CoCos. Now that the regulatory framework has evolved, and these Tier 2 CoCos would have a similar value to you as just vanilla Tier 2, how should we think about the future of these instruments, given that they are indeed quite expensive as Tier 2. Do you see any scope for LME, for example?

Steven Penketh

With regard to the first one, we've given quite a bit of disclosure in our full year results. If you look at pages 72-73 in the Pillar III, that talks about how we view the grandfathering and the amortisation of our capital stack. Broadly speaking, we're following the EBA Q&A very closely like you are, and I think what you've just described is pretty fair.

I think within the context of the Tier 2 CoCos, you will remember that we actually set those up originally when we were talking about a 7% trigger, and actually recapitalising back to a 9% CET1 level. At that point 1.5% AT1 was the right number with 50 basis points of Tier 2 making up the difference. If anything, as capital levels go up, holding those particular Tier 2 CoCos becomes more relevant. I would add that not only on the back of the nominal loss-absorbency that they have for us on a conversion event, they also are very valid and useful Tier 2 capital in their own right as well.

James Hyde, Pramerica

Firstly, a systemic question, or a UK regulatory question, not just about Barclays. Can you quash this story that's emanated from a lot of equity houses that leverage ratio requirements will be inflated to the same proportion that the whole of the PRA capital requirement is going to, against the CRD IV basic requirement? For instance, if you've got 12%, rather than the 8%, that would mean a 4.5% leverage ratio. Or can you give any colour on that story?

Tushar Morzaria

On your first question, I suspect that, now that Basel have completed their deliberations on final rule making, my understanding is that at some point it will get adopted in the CRR, and as part of that, the FPC will review what the appropriate leverage ratio minimum is for UK banks. So I don't have any more information than you do on that, but the way I think about it is this: you've heard of talk about running a 3.5-4.0% leverage ratio around about the time that I suspect the FPC will finish its work, and talk about its findings. To the extent that UK banks need to hold a higher minimum, I think we're very well positioned to cope with, and that's really the whole purpose of our leverage plan originally.

In terms of some of the nuances here, the G-SIFI buffer on CET1 is really targeted towards those banks that are large in size. So leverage, in some ways, is already reflected in your CET1 requirements through that buffer. Then of course you've got Pillar 2A, which is taking account of other idiosyncratic risks. So although we don't know exactly where leverage ratios will land in the UK, we'll be very well positioned to cope with what comes out of the FPC review.

James Hyde

Secondly, your comment about changes to the original guidance on how you saw the ring fence. Am I to read that to mean there's going to be more of the corporate deposits going in to the ring fence? Or is it the opposite, that you might have to have some other form of wholesale funding other than covered bonds form the ring fence?

Peter Freilinger, Acting Co-Treasurer

As Dan indicated, we're still in an early stage of evaluating the composition of the ring fenced bank. Some of the principles we're looking at are the customer experience that will be required for customers in the ring fence, and that will be the first driver of what products and services, including which deposit products, end up within the ring fence.

We're not at a stage right now where we can provide full guidance with respect to those customer products, and by definition therefore, we still are not able to give a full picture of the overall funding profile, including the issuance plans, whether secured or unsecured, for the ring fence bank. We are actively taking a look at the development of the secondary legislation and the regulatory framework here in the UK, and as that clarity evolves, we'll be providing additional information to the investor community through time.

James Hyde

Finally, on the USA and Section 165. Can you illustrate or give some kind of colour to the choices that you have? Are we talking about the securities unit issuing, because it only does secured repo currently? Or are we talking about some kind of novation of existing branch debt, or something along those lines? What are those choices?

Peter Freilinger

With respect to section 165 and our implementation of plans for our operations in the United States, we have quite a few different types of options on the table, including changes to the balance sheet mix, in terms of product offer within the US, versus products offered out of our London booking centres. We also note that Section 165 addresses the creation of an Intermediate Holding Company for our US subsidiaries. It would not include our US branches of Barclays Bank PLC, so our New York and Miami branches would remain outside of the IHC umbrella. So we are looking at options in terms of how the branch and the subsidiaries interact under Section 165. Again, though, formal and final guidance for foreign banking organisations is not expected until later this month. So we won't make any final plans or provide final detail until we've had a chance to digest those formal regulations and discuss them with both the US and the UK regulators.

James Hyde

Going back to the 3Q discussions on your issuance plans. Is most of the senior unsecured going to be Op-Co, or are we already looking at a meaningful issuance of Hold-Co senior unsecured debt?

Steven Penketh

As we said on the road, in the context of our inaugural AT1 issuance, we think that moving towards a single point of entry, and having funding coming out of the holding companies is, in all likelihood, the direction of travel for the UK industry and potentially across Europe.

We believe that capital hierarchy discipline is key, so issuing AT1 capital out of Hold-Co is the first step in that. As a result, as we're sequencing out AT1 to Tier 2 to eventually senior out of HoldCo, senior issuance in the interim is more likely to come out of the OpCo of Barclays Bank PLC.

Jacquie Ineke, Morgan Stanley

You mentioned about the conservation buffer and the G-SIFI buffer. We kind of know when they're going to get phased in, but the systemic risk buffer, which is quite separate from the G-SIFI buffer, that can be introduced now, potentially, and also the sectoral requirements that the FPC is talking about now. Have you had any discussions with the regulator, or any indications, that either of these buffers and requirements might be upon us later this year?

Tushar Morzaria

We speak to the PRA on a very regular basis. None of the conversations I've had with the PRA would indicate there's anything due imminently. That doesn't mean there won't be, but it's not my expectation. I also think that they would give banks a reasonable amount of notice before any counter-cyclical or similar buffers could apply. Maybe up to 12 months.

I think in terms of our capital position, I just draw your attention to the fact that our minimum requirement in the UK at the moment is 7% CET1, and we're running at 9.3% as at the year end. So we are deliberately running a very healthy buffer above any bare minimum requirements to absorb anything like that, were it to happen, but that's certainly not our base case.

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