

Barclays PLC FY 2017 Results**22 February 2018****Fixed Income conference call Q&A transcript (amended in places to improve readability only)****Corinne Cunningham, Autonomous**

I've got a few questions. The first one I wanted to ask about was how much AT1 you think you need. You're obviously running a bit of a cushion now. Is that just because you've pre-issued ahead of the maturity of the \$2 billion that gets to the call date this year? Or we've heard from some of the other UK banks that they're consciously going to run with a cushion of around about 50bps on Tier 1.

The second question was about leverage. In your own presentation you mentioned that new slide there. It looked like you would miss on the stress-test basis if you drew down 1.45%, you would drop below the 3.8% requirement, so I'm a little bit puzzled why you're relaxed on leverage.

Tushar Morzaria, Group Finance Director

Leverage is something, Corinne, as you're probably familiar, we've been on the wrong side of in the past and ended up having to raise equity capital in 2013. So it's something we are, acutely in some ways, quite sensitive to and remember the consequences of getting onto the wrong side of that, so it's something internally we spend an awful lot of time making sure that we feel comfortable with.

In terms of our leverage position at the moment and stress testing as it's currently defined we feel pretty comfortable with where we are. Included in our draw-down from the most recent stress test there's quite a meaningful component from stressed conduct and we do expect that to lessen over time quite materially. We've put several of the more significant cases behind us. You may have seen this morning that we put another FX-related matter behind us; we've put the FERC case behind us, etc.

I also think in terms of managing our leverage, if we wind the clock forward into a "Basel 4" type regime it's a little bit uncertain as to how that may manifest itself in the timing. It does feel some distance away yet, and obviously with national discretion it's hard to know exactly how that'll be applied.

But we feel we have a lot of levers available to us to manage through that. Of course Kathryn talked to you a little bit about AT1 but more importantly you see that we run a fairly significant-sized liquidity pool. We certainly have flexibility over time to manage that. Obviously the mix bit of that liquidity pool as well between cash and government bonds; flexing that mix can also have an impact in a constructive way in terms of our stress test, minimum requirements, as well as in some cases even the ratio itself.

So at this stage for everything we can see and in the stress test we experienced we feel pretty confident with where we are. It's something we will keep a very close eye on and a watching brief on.

Kathryn McLeland, Group Treasurer

In answer to your question regarding our current levels of AT1 and our plans for future issuance, we've also noticed the comments from some of our peers around their intentions in that area and you're right; we're currently running about 60 basis points of a buffer above the 2.3% with the £9 billion outstanding, obviously having access to the market last year.

You'll also observe that there are some calls coming up for some of these securities and there certainly is some benefit in having flexibility around our redemption profile.

So I think we do anticipate staying at around this buffer in terms of AT1 outstanding. We do value, as I said in the remarks, the flexibility it gives us around some of those movements in both RWAs and foreign exchange and as you heard from Tushar, it also provides some benefits in terms of our leverage ratio. You should see us be a consistent but measured issuer of AT1 over time in the market.

Robert Smalley, UBS

Just to round out a little bit more on Corinne's question, so when we look at the £10bn of MREL to do for 2018, does it fairly well map what you did last year in terms of senior, tier 2 and AT1, acknowledging the calls and replacement there? And if it does, I guess the bigger swing back is probably the tier 2 more than the senior HoldCo.

And secondly, when we looked at your credit spreads they're trading wide versus a number of your peers. When talking to people in the market they say litigation risk, they say Brexit, as well as volatility in income because of market-related earnings. On the other hand, you're able to return capital and you clearly have the regulator's blessing to do that, so what's the fixed income market missing here? Because it seems like their perception is really skewed towards the litigation, Brexit, etc. side, while you've gotten a green light from the regulators to return capital, which is a clear positive.

Kathryn McLeland, Group Treasurer

In relation to the anticipated profile of the £10bn of MREL issuance we have planned for this year, as I mentioned, you would have seen already we've done £2.4 billion already in January, which is a good start to the year. Last year we accessed a range of currencies, tenors and across the spectrum in AT1, tier 2 and senior, with meaningful amounts in the USD market and also GBP and some in EUR.

So I think what I would encourage is that over the course of 2018 we'll probably have a similar diversification in terms of the types of security we'll be issuing. I mentioned that we see value in AT1. We do have tier 2 outstanding and plans for tier 2 and also senior debt so we will be thoughtful as we access the markets and we also mentioned in the earlier remarks that we have accessed the markets already in 2018 across secured formats and in a shorter-dated transaction from our operating company, so continuing to strategically diversify the investor base and the source of the funding we will take from the markets in 2018.

Miray Muminoglu, Head of Capital Markets Execution

I think you made the right points because we're also asking our investors and those are the two or three things that always come up so really what we're trying to continue to do is execute our strategy, as we have talked about for a number of quarters, most importantly, engage with investors and

hopefully we'll come to see you with Kathryn shortly and tell our story and we think our spreads will catch up with the rest of the market; that's what we expect.

Lee Street, Citi

Firstly on RWAs, and I'm not asking about Basel 4 here but I just wanted to know what you see as the key risks regarding RWA inflation over the coming three years or any other types of regulatory change.

Secondly as regards the US BEAT tax requirements, do you think that could force you to issue debt out of your US business or US entity?

Finally on your holding company tier 2 rating at Moody's, currently at Baa3 negative outlook, obviously if you were to get downgraded it would remove your IG index eligibility, obviously potentially at the cost of tier 2 funding. Is that a concern and are there any actions you are or you're looking to take there to try and guard against that risk?

Tushar Morzaria, Group Finance Director

In terms of RWA inflation and excluding Basel 4, as your question referenced, I don't see a lot of inflation on the horizon that's going to be explicit in terms of any significant rulebook changes that are coming down the pipe. You've got a fundamental review of the trading book; again that'll come in over time. We've given out guidance on that but I do think that'll be quite manageable for us.

There are of course refinements to underlying models as a way of life in large banks, some of the could reduce RWAs and some of them could increase RWAs, it depends. But by and large I don't think there's anything significant I would reference.

Kathryn McLeland, Group Treasurer

Your question on the IHC and how it will be funded on a term basis; we did also hear some of the discussion in the market around the impact of BEAT on how the FBOs fund themselves in the US and whether there was any anticipation that they might do more self-funding. Certainly when we think about our future plans for the IHC, at this stage we envisage that it will continue to receive its TLAC downstream from BB PLC. It is our understanding that should it self-fund it would not qualify as TLAC.

I guess more broadly also we made some comments through Jes and Tushar this morning around our expectations for the group in terms of tax and the impact of BEAT, but we would anticipate no change in our plans, and the IHC will receive its TLAC on a downstreamed basis.

Miray Muminoglu, Head of Capital Markets Execution

On ratings, obviously these negative outlooks were put in place in the summer of 2016 for us and a number of UK peers. Agencies typically take 12 to 24 months to resolve those but Moody's also mentioned that the time around ring-fencing might be a time period to say more, so we're watching those developments.

I think, as we always say, we can only focus on what we can control, so two things; certainly we have to continue to execute our strategy. For Moody's purposes, clearly increasing our HoldCo issuance does help with their metrics and that's what we are doing, as we have made our plans known.

In terms of indices, you would know also, it's quite a complicated metric in terms of which index, which combinations of ratings; but certain outcomes might mean that our HoldCo tier 2 may not

qualify for one or more indices so we'll have to see. There are a number of other G-SIBs with similar ratings profiles. Again I think our credit story and what we've done and what we're executing; we'd like to think that is going to be key and we should be able to maintain our access to all parts of the capital spectrum.

Arnold Kakuda, Bloomberg Intelligence

A couple of questions; first is on the leverage ratio. Your 4.9% is above your 4% anticipated requirement and you have a peer in Europe whose constraint is a bit on leverage so I'm just wondering if you had opportunities to deploy your strength in the leverage ratio to maybe take market share in certain areas.

Second question is on your 2018 MREL funding plan. It seems like it's a little bit higher than what you had mentioned maybe three months ago; I think you were targeting £8bn three months ago so what really changed in the past three months? Is it, you had a nudge-up in your pillar 2A requirement or is it also maybe considering the higher equity returns that you're planning to do, is that part of it?

Then lastly my third question is no liquidity. Your LCR level is 154%, it seems very robust but is it going to remain very elevated due to ring-fencing requirements or maybe the flow of funds isn't as seamless as it was before? In case you do have excess liquidity can some of that maybe be deployed into liability management exercises? There was also a comment on the equity call where you mentioned the retirement of expensive debt.

Tushar Morzaria, Group Finance Director

In terms of leverage, yes, we feel at the moment less leverage constrained than we have done for a while, notwithstanding the earlier question from Corinne, as it's something we pay a lot of attention to and monitor closely but we do feel we have some flexibility with leverage.

We have talked about, in late 2017, deploying some of that leverage in our markets business where returns are very attractive and actually quite stable; the financing businesses, particularly here whether it's in prime or fixed income financing or related activities, are more annuity-like rather than the more cyclical nature of just sales and trading revenues, which are somewhat driven just by client activity, which can ebb and flow as markets dictate.

But we do like that and we have deployed some of that leverage; that's also within our leverage ratio and where we continue to see opportunities we will do that but we'll do that with an eye to making sure that we're absolutely at the right place in terms of leverage ratio requirements and anticipating, to the extent there are any changes on the horizon, that we adapt well in advance of that.

But by and large the spirit of your question is would we deploy leverage to improve earnings and the answer is yes, absolutely, on a very prudent basis.

Kathryn McLeland, Group Treasurer

Yes, you're absolutely correct; the guidance that we have given is roundabout £10bn but I think you saw that we raised £11.5 billion in the markets in 2017 and quite a similar quantum the prior year in 2016 and the £8bn was essentially an average number over several years to meet end-state MREL requirements so what we thought it would be helpful to do is just to provide near-term guidance.

So the £10bn is our thinking for this year and it's certainly our intention since we got off to a good start in January, raising that £2.4bn, to try and access the markets very thoughtfully, as I said, across

the range of tenors, currency and product and take advantage of the benign market environment. There's been a little bit of volatility but clearly at reasonably good levels and decent demand for our name so there's nothing else driving it in terms of changes; it was a 10bps change in pillar 2A so our thinking in terms of our 29.1% MREL requirement is exactly the same, it's nudged up a little bit but we just want to provide more near-term guidance rather than the £8bn which was an average.

In terms of liquidity, it's a good question on the LCR ratio. We finished last year with a liquidity pool of about £220bn and our LCR ratio has nudged up to 154% and we're actually very pleased holding this level of good liquidity. It's actually pretty inexpensive funding for us. We've grown deposits in the UK at a good rate, at pretty competitive levels. We've taken advantage of the TFS scheme, as you know, last year and so this sort of LCR is actually broadly in line with many of our peers who are also at quite high levels.

It does also provide, as you commented, an extra degree of conservatism and a strong position as we implement ring-fencing but I wouldn't encourage you to think it's going to change dramatically. We're quite pleased having a strongly-capitalised, well-funded and liquid balance sheet at the moment.

Ebrahim Saeed, Deutsche Bank

My first question is... I appreciate your commentary around maintaining some flexibility on the AT1s with the buffer you hold. In keeping with that, you have some USD redemptions coming up and I just wondered, with respect to your CET1 guidance that you've communicated to the market, do you already factor in any potential FX losses that may come through from this? I appreciate it's more of a confirmation that that would have been taken into consideration already.

Then the second question - Lee already asked it but if I may pose it slightly differently; with respect to the tier 2 in particular, in order of priority is it a very high priority or not a high priority to maintain the IG rating on that tier 2 in particular given that your issuance requirements in tier 2 are not that significant? Just if I could get a sense of how management is thinking about that in terms of priorities, thank you.

Kathryn McLeland, Group Treasurer

Yes, in relation to how we think about potential impacts to our capital ratio, I guess the first comment I'd make is that we're very pleased with where we finished last year at 13.3%, which is comfortably within our target end state range of around 13% and we've been very pleased to be able to resume the 6.5p dividend that we had two years ago.

So when we think about the capital trajectory over the next few years the dividend is clearly a medium/long-term policy, part of our capital management framework for the group. We've had to manage FX risk on the redemption of some of the historic retail preferred shares. There're some other equity accounted instruments that may be coming up for call over the next few years, both AT1 and obviously one final retail preferred.

So we do take into consideration potential calls of these instruments, we're not allowed to comment on any of these securities and give any intention as to whether or not we will call them, but we will have conservative assumptions in our plans on this and also other elements that may impact capital, such as conduct and litigation and we've discussed previously some of the much more forward-looking Basel 4 developments which are some way out into the future.

So we do take all of this into consideration given the confidence we have in the capital position now and in our forward plans around the dividends.

Miray Muminoglu, Head of Capital Markets Execution

With regard to ratings, I think, as Kathryn mentioned in her speech, ratings are strategically important to us. When we look at them we don't really single out between security ratings or tranche ratings; I think they're as a whole important.

As I mentioned before, I think we will continue to execute our strategy, tell our story to both rating agencies and investors and we will try to control what we can as the management team.

Joe Hopkins, Morgan Stanley

My first question follows on from the comments made on this morning's call about taking out expensive debt. Can you please elaborate on these plans?

Secondly, linked to this, how would you look at your legacy capital instruments as we approach 2021, particularly those which may cease to count as regulatory capital if CRR2 is introduced?

Kathryn McLeland, Group Treasurer

Over the last few years we have undertaken various liability management exercises to optimise our liability structure and also help with the migration to the holding company and the single point of entry model that we'll be adopting. We have done this as a matter of course, thoughtfully, with consideration to rating agencies, to our debt investors and obviously thinking also about the overall cost for the group.

So in the comments made on the equity call we do have a number of expensive instruments from the financial crisis which have been discussed previously with both equity investors and fixed income investors and some of them are callable next year and as I mentioned in my earlier answer, we also have a final retail preferred that's callable every quarter and a relatively high coupon. So we can't be specific around any particular security but there are just several that are either callable in the next few years and we will look to continue with the strategy we've done over the last few years of being thoughtful in the market, thinking about all the stakeholders but also optimising where we can the cost of our liabilities.

Miray Muminoglu, Head of Capital Markets Execution

I'm looking at our list of legacy securities; they are about 40 strong and my team and I review them periodically to really look at, are they doing what they were designed to do from a capital and MREL perspective and if not even for funding where do they stand in terms of changing regulation, grandfathering, whether they have great potholes or not, and then we run this analysis to see if there's anything available out there in terms of ways to retire this. That's an ongoing process.

Certainly some of them, I think, will lose their capital eligibility. Certainly all of them will lose their MREL eligibility by 1 Jan 2022. Some of them will maintain a form of reg-cap benefit for us and as you know, we're also following a debate between the EU Commission and Parliament so I think we're going to have to see where that ends up.

The internal MREL consultation may have a few things to say about that as well so it's really an evolving scene, as you very well know but we keep a very dynamic look at those to see what we might need to do or look to do in the future.

Corinne Cunningham, Autonomous

I'll sneak in a quick one at the end. It's about the LCR; most of the question I had has been answered but I just wondered, what would the LCR ratio come in at if you netted the FLS, TFS and cash out on the other side?

Tushar Morzaria, Group Finance Director

In terms of the LCR, it's been netted off first and I didn't bring a calculator with me but I could probably calculate it quicker off the top of my head. I don't think it'll be that significant. We don't have a number off the top of our heads, Corinne, but I don't think it'll be very significant and I think if we did net it down, I don't think you'll see a material reduction in the LCR.

Corinne Cunningham, Autonomous

Okay, thank you.

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