

Barclays PLC Full Year 2016 Results**Fixed Income Investor Call****23 February 2017****Fixed Income analyst call Q&A transcript (amended in places to improve readability only)****Paul Fenner-Leitao, Societe Generale**

I've got a couple of questions but they're very quick ones. First, in terms of phasing in of the G-SIB buffer I notice there's something funny about how you're phasing in. There's quite a big jump in the G-SIB buffer from last year to this year and then there's flattening next year. I would have imagined that that would have been smooth. Can you just explain how that works from last year to this year?

Second question, just to clarify in terms of legacy tier 1 calls. So you're planning to call the series 3 [USD retail preference shares] this year. Is that also the bond that Jes was alluding to this morning and how do you go about selecting which series it is that you've decided to call?

On AT1 calls – just to get ready as we move towards 2018/2019. This is going to be a common question – can you just tell us what your approach is going to be around AT1 calls and exactly what you define as the economics of the call?

In terms of funding you've got another c.£5bn to do. You said that you'd split that between senior, tier 2 and AT1. Is that an even split, is it basically one transaction in each of AT1, Tier 2 and senior? A little bit of colour there would be helpful.

And finally on the ring-fenced bank – this is a fairly odd situation for creditors given that we're exposed to an entity that's going to look quite different, possibly, by the end of this year. How close are you working with the rating agencies to ensure that we don't have some drop in ratings that could be a surprise? The disclosure you provide is very helpful and I think probably allays fears but just to give us a little bit of flavour on how that process is working?

Tushar Morzaria

Thanks Paul. I'll get Dan to answer most of them but once Dan's just covered the G-SIB phasing in part I'll just make another comment on capital and then Dan can talk about the legacy instruments and then the other questions you had related to that.

Dan Hodge

So let me start with the G-SIB. Originally we were seeing a transitioning in at 25% per annum of the G-SIB of 200 basis points. But of course given we're now in the lower bucket because our score fell to 308 which took us to the 1.5% category. You'll see that have an effect from 1 January 2018. There's a lag effect to dropping a bucket but it will come in from the start of next year. So what you've seen, therefore, is there is a stabilisation even though we're still transitioning in – we're now switching to a lower buffer so that's why you see that stabilisation.

Tushar Morzaria

So just before I go back to Dan on the other parts, for the G-SIB buffer – the reason why I want to make an additional comment is in the end state we've dropped down a bucket but we are keeping our management buffer above MDA levels at about 150-200bps so it's a recycled benefit of the reduction in the G-SIB buffer into a slightly larger management buffer so still targeting the capital range that we have. And we expect to get there in very good time. Of course there's a number of things that we need to work through as we work towards that end state.

There was a question this morning around pension contributions and I thought it might be helpful for this call just to touch on that. Obviously the pension contributions are driven by triennial negotiations we have with the Pension Fund trustees and their actuaries. The last negotiations were completed in 2014. So these are something that we've been aware of for some time and it's completely factored into our capital projections and of course we're having another triennial discussion so we're being very prudent in any assumptions that we're making around the outcome of those discussions as well and still anticipate getting to our end state capital in good time. The reason why I thought that was helpful was because of course it's part of the overall total capital stack for the company. Dan do you want to cover the other questions?

Dan Hodge

Yes certainly, I'll clarify that we did give notice for redemption of the series 3 preference shares that's going to have effect in the middle of March this year so you'll see that one coming through. And we haven't made any decisions with respect to the remaining series 5 preference shares. Obviously it's not hard-wired and it remains a complete option for us to call or not to call and it's an option that's available for every quarter plus the accrued coupon.

In terms of more broadly how we see AT1s we don't make any assumptions or give any comments on calls ahead of time. You can expect us to continue to be a regular issuer of AT1s. We would expect to issue enough AT1s to have flexibility to manage our redemption profile but without predicating when a call may or may not be made in the future. Any decision taken would be subject to consent of our regulator and we have to look at the economics at the point in time. So that would include upfront and ongoing P&L and CET1 impact.

Just turning to the point around funding this year and the composition of the remaining £5bn, again [there is] absolutely nothing hard-wired around that so I don't think there's going to be exactly a third in each of senior, Tier 2 and AT1; we're going to be guided by investor appetite and market conditions in doing that so I can't give any more specifics at this stage.

In terms of what you describe as the unusual situation of investing in BB PLC at the moment as it's going to become quite different. Obviously, as you'd expect we've been doing a lot of work with the rating

agencies on this and we've done an awful lot of work in terms of designing the legal entities in a way that will continue to be investable, very creditworthy, very strong, stable and robust post the establishment of the ring-fenced bank.

In terms of where we are specifically with the rating agencies let me start with S&P because they've actually come out publicly and said they've taken into account the advent of ring-fencing in the current rating of BB PLC and what they said is there is a bit of negative downward pressure but it's offset at the moment by positive uplift from our issuance out of the holding company which generates an increase in what they call the ALAC add-on to the standalone rating. So there are offsetting impacts there which are quite helpful, and they're taking that forward view and I think it vindicates a lot of the work we've done around the robustness of BB PLC on a forward basis.

We obviously do talk to Moody's as well; they haven't come out and said anything much specifically about Barclays and how we're impacted by ring-fencing. They made some general comments to say that a non-ring-fenced bank's [standalone] rating is likely the same or lower than pre-ring-fencing, whereas the ring-fenced bank itself would be likely the same as the existing [standalone] rating of BB PLC or higher. They have said that they won't make an adjustment to their rating until the separation time itself. Obviously we think it's in our interests and the interests of our investors to get more notice of any changes that they would do.

Just to finish with our general comments around ratings; ultimately the agencies will do what they do. The key thing for us is to deliver on what's within our control and that's to execute on our strategy which we know should absolutely be credit ratings positive. So that means delivering our core returns and completing a wind-down of non-core to make us more profitable. It's about successfully building our issuance out of the holding company and also delivering on our structural reform plans through retaining a very diversified business model for BB PLC.

Lee Street, Citigroup

Firstly, any comments you can give on how you intend to fund the non-ring-fenced bank and specifically whether it will issue unsecured?

Secondly, it might be a silly question but when you call AT1, or if you call AT1 I should say, will there actually be a negative CET1 impact or is it just because the legacy instruments are actually preference shares that's why they have that impact?

Obviously I appreciate the increase in the management buffer that's now happened. In the slides you didn't add to the stress test outcome. If you had a much better stress test outcome is there a chance that the management buffer could slip down lower?

And finally for risk-weighted assets, I think you guided that you'd be about £320bn adjusting for BAGL and non-core. On your best guess for FRTB and operational risk if you were to add those back in do you think you'd be above or below the current level of RWA you're currently at?

Tushar Morzaria

In terms of the buffer we've always tried to calibrate that to ensure that we have enough distance between the capital level and any MDA levels to avoid any triggering of that. And we've always felt somewhere around 150bps or above feels about right.

We've then also said that stress testing is always really important in terms of ensuring that the absolute capital level is consistent with any expected drawdowns with regards to stress testing. And that's why when we looked at the most recent banking stress test – we had a 450 basis points drawdown – the upper end of our 12.3% to 12.8% covers both of those eventualities. I think the Bank of England did say that the [2016 test] was a particularly severe stress test and they certainly didn't indicate that they would expect subsequent stress tests to become increasingly severe. We'll see what it is but I don't think it's something we'd look to revisit very frequently but if our drawdown continued to be lower than these levels in subsequent stress tests I think that does give us some capacity to perhaps recalibrate that buffer.

In terms of risk-weighted assets and the £320bn I think things like fundamental review of the trading book and others, there'll be a while before they get introduced. It's part of the CRR2 text and it remains to be seen how they get to finalise it legislatively and then of course the implementation date. But it does feel a few years further out.

I still think it's reasonable to assume that on an underlying basis, after having divested of Barclays Africa and after us having continued to wind-down non-core, that's the jumping off point for our risk-weighted assets. And then we would like to see where we have opportunities to perhaps grow that but I think it would be a very, very modest pace. You can see, given our market share in the UK it'll grow at a very, very modest pace and we haven't had a huge amount of growth in there over the last couple of years which is what I think you'll see prospectively as well.

I don't think immediate rule changes in CRR2 will flow into RWA until some point in the future; I think it's probably a few years out. Dan do you want to cover the other two questions?

Dan Hodge

Yes sure, I think you were talking there around the non-ring-fenced bank in terms of whether or not it would be issuing any unsecured; I'll give you a bit of guidance on the ring-fenced bank as well whilst we're at it. It will continue to have senior unsecured funding needs that's going to be a mixture of three things.

Firstly, a downstream of TLAC from the parent. Secondly, some money market funding for operational purposes. And thirdly, continue to have access to structured notes, which has historically been quite a material funding source for Barclays, albeit not the same sort of volumes now that we've seen in the past.

So yes, it will absolutely have a need for that. But it's also quite important to realise that the non-ringfenced bank can be very diversified in terms of its overall funding profile. It's going to have a very material quantum of deposits from corporates and from wealth customers as well, and retail sources as well, for instance, in Delaware. It's also going to have some secured funding sources and, also from Delaware, through our credit card securitisation. So it's quite a nice mix, I think, by product and by currency, and obviously by tenor as well.

On the ringfenced bank, that's not going to have the same quantum of unsecured wholesale funding as the non-ringfenced bank. The majority of its funding will be from deposits and most of those are insured. But there will actually be some secured funding too, mainly of our mortgage portfolio. There's going to be some money market there as well for operational cash purposes as well as utilisation of downstreamed TLAC.

In terms of the other points around AT1 calls, there's an upfront impact on redeeming the capital which is the retranslation of a USD liability at the point of redemption. And clearly, given that USD has appreciated since these were issued that is a negative for us. That was the case for the two series that got redeemed last year and the one that's going to get redeemed in March. Clearly, these are very economic things to do though on an ongoing basis, and you do get a very nice IRR from these redemption decisions so that you make that capital back in a small number of years.

In terms of do we see a similar effect for the AT1 securities out of the holding company – yes to the extent to which they're non-Sterling denominated because they're equity accounted because of the equity features from an accounting perspective. We're not retranslating that liability to Sterling over time, so you would see that come through the P&L at the point of a call, were we to call them.

Jackie Ineke, Morgan Stanley

I have two questions. The first one was relating to a bond you mentioned earlier on – the 5.14% Tier 2. I think you were suggesting that might lose its regulatory value if the proposals go through from November without change. I was just wondering why it would. It looked like it was issued in 2010 so it would have, I think, got grandfathered and so would be exempt from the proposals.

Second question was more broad. Obviously you said you're going to call this series 3 preference shares and it's obviously from the OpCo. Are you seeing any kind of regulatory encouragement to clean up the OpCo layer of capital in the group? Obviously you've done a lot of LME, and you continue to do LME, but is that pure economics or is there a regulatory angle there as well?

Dan Hodge

The first thing to note here is that the CRR2 is only a first draft and so we don't know for certain what the final version of the legislation is going to be, and so I was merely pointing out that because CRR2 talks about losing value as capital by virtue of the securities not having the contractual bail-in language, that they would cease to qualify as capital and as MREL on that draft language, but I think there's going to be plenty of iterations yet before we wind up with a final version of the law.

In terms of the grandfathering, it wasn't actually our expectation that it would be grandfathered, by virtue of being issued before 2010. That wasn't our understanding. Obviously we can go and take a look at that and the technicals around that and so we're not necessarily relying on it being grandfathered. And that's because we're actually very, very confident in our issuance profile and capability out of the holding company, going forward, so it's not something that we necessarily need to place a lot of value by.

Jackie Ineke

Sorry, just on that, if I can stop you. If it is really grandfathered, then you wouldn't be able to reg par call it, would you, because you wouldn't have that open to you?

Dan Hodge

I'm not saying that necessarily reg par call is something we would rely on or not rely on at this stage. I think it's really too early to speculate about that. I think we'll just have to wait and see what the regulations finally say. And then once those regulations are complete, we'll obviously need to

understand those and how they apply at the time and take legal advice, etc. But I think it's just a bit premature to speculate on it.

In terms of receiving any regulatory gentle pushing in terms of our liability management exercises or our calls, obviously we do need regulatory approval to the extent which we're redeeming or calling debt capital in our OpCo, whether it be via an exchange or via just a straight repurchase. And therefore they're supportive of the actions that we've taken and we continue to take. But I probably take it as a good sign that they're happy with the speed of travel and our overall, capital trajectory and our MREL trajectory, that we're under no particular pressure to accelerate.

Jackie Ineke

Okay. Because the subordinated debt at the OpCo beyond 2022 would still count as regulatory capital, depending obviously on its features.

Dan Hodge

That's right.

Jackie Ineke

So it would still have some value, though it seems like you're obviously getting through all the OpCo sub-debt as we go along. That's why I was asking if there's any kind of encouragement from, I think, particularly the Resolution Authority who probably just wants to deal with the HoldCo, if there is any problem in the future.

Dan Hodge

No, we haven't. You're absolutely right that it would continue to qualify as capital, post 1 Jan 2022. Obviously it wouldn't qualify as MREL. But no, we've not been receiving any kind of pushes in that direction. We don't have a particularly large tail I think it's fair to say of debt capital within BBPLC. I think the number is a shade under £8 billion actually left, post 1 Jan 2022. I think I'm right in saying about half of that matures in 2022. So possibly the lack of pressure is because there just isn't a particularly large quantum of that at that stage.

James Hyde, PGIM

I have a question about the run-off of the Non-Core. It's pretty impressive to have got from £512bn nominal assets to £280-290bn. But is that really job done? I'm asking this because of the leverage ratio. Given all the uncertainties of risk weightings and so forth, we are having to be more vigilant on the leverage ratios the debt investor is under. Is there going to be a stop to these assets running off, now that you will fold it into the operational parts of the the group? And are you going to even dip your toes into the same asset classes? And is it that you are happy with those asset classes now and you want to go back into it? Or will there be a continued run-down of that quantum?

Tushar Morzaria

I think with regards to the Non-Core assets, you would expect us to continue to run them down. The reason why they were called Non-Core is they're either not strategic in nature or they're not really generating the returns we would like. So our real objective function is to recycle that capital to better

productive uses; either back to our investors or put to more productive use within the company. So to directly answer your question, I think you'd continue to expect us to try and drive down that portfolio.

One of the lessons learnt from Non-Core that we found very positive is that just having a singular focus on working out these assets has been a good experience for us. And we don't want to lose that. So even when we fold these assets back into Barclays International and Barclays UK in the future, I think that intense focus within those two trading companies in working out these assets will continue. We may not report them separately but you should be rest assured that the focus on driving them down will be just as much

Dan Hodge

We are very confident actually in where our leverage is now on a spot basis and in the future flightpath. We're not quoting specific targets or establishing formal management buffers because we are happy with the distance we have from our regulatory minimum. We're just going to let our CET1 and AT1 accretion increase the ratio over time. We absolutely do need to be disciplined.

And it's probably worth touching on the news from the PRA around the recalibration of the binding leverage ratio in the UK, which is now called the UK leverage ratio, which is to recalibrate the exclusion of central bank cash which is funded in the same currency. We're not taking [the recalibration] and suddenly spending amounts of leverage elsewhere in the bank equivalent to the amounts of cash that we have. We've listened to the PRA statements that these recalibrations aren't really intended to lower capital requirements by the back door and they're looking to recalibrate the ratio framework later this year. So I think we're confident in it but we continue to plan in a prudential fashion.

James Hyde

Actually, just quickly on that, I'm assuming that, for instance, your deposits at the Fed cannot be counted with that because you don't have enough matching consumer or other deposits to benefit from that.

Dan Hodge

Yes, they can be because this isn't necessarily just consumer deposits. This can be just any kind of deposits, including wholesale, as long as they're in the same currency. And so we do have a lot of USD denominated CPs and CDs. So it's not just Sterling.

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