

Barclays PLC 2017 Interim Results**Fixed Income Conference Call Speech****Tushar Morzaria, Barclays Group Finance Director****Dan Hodge, Group Treasurer****Slide 2: Tushar Morzaria, Barclays Group Finance Director**

Good afternoon everyone and welcome to our Half One 2017 Results, Fixed Income Call

I'm joined today by Dan Hodge, our Group Treasurer

Let me start with slide 3 and make a few comments on our strategic progress and Q2 results

Slide 3: Completed Barclays' restructuring

This morning, Jes Staley, our Group CEO, outlined our strategic progress in Q2 and our plans for the business as we move on to the next stage of our development

I will briefly summarise the key points and also provide an overview of our business performance before handing over to Dan

Firstly, we disposed of 33.7% of Barclays Africa effectively reducing our stake to 14.9%

This enabled us to achieve proportional regulatory consolidation to a level of 23.4% and accrete around 47 basis points to our CET1 ratio. Alongside other capital accretion, this resulted in a ratio of 13.1% at half one, at our end state target of around 13%

We expect further CET1 ratio accretion from Barclays Africa of around 26 basis points, taking the total to around 73 basis points, as guided. We expect approximately half of this further accretion to be achieved in the second half of this year when proportional regulatory consolidation will align to our 14.9% stake, and the remainder when we achieve full regulatory deconsolidation, at some point in 2018

Secondly, we completed the accelerated run down of Non-Core, closing the unit with 23 billion sterling of RWAs, below our 25 billion guidance. These will now be reintegrated into Core for their continued rundown and we show in the appendix where these remaining RWAs have been allocated

These actions represent significant milestones in the restructuring of Barclays

We maintained our focus on costs, achieving an underlying Q2 Group cost to income ratio of 67% and an underlying RoTE of 7.2%, excluding the impacts of the Africa sell-down and the 700 million sterling provision for PPI taken in the quarter

Turning now to the Core business performance in Q2

Core delivered an underlying RoTE of 9.7% and underlying cost to income ratio of 60%

For Barclays UK, underlying RoTE was 19.1% and NIM improved to 370 basis points

We maintained our conservative risk appetite and have continued to monitor all leading indicators for signs of deterioration. Impairments remained stable at 220



million sterling this quarter with improved delinquency rates in our UK cards business, versus Q2 16

For Barclays International, RoTE was 12.4% with an encouraging performance in Banking and continued growth in US cards

Turning now to slide 4

Slide 4: Group financial targets

Looking forward, management's focus for the next phase of Barclays' evolution is on improving returns and we have shared three financial targets for the Group:

To deliver an RoTE of greater than 10%. As Jes outlined this morning, eliminating restructuring costs, improving CIB returns and driving cost efficiency through our ServCo will be important drivers towards this target

To maintain a CET1 ratio of 150 to 200 basis points above regulatory minimum levels, and

To achieve a cost to income ratio of below 60% through strategic cost savings and the elimination of around 1 billion sterling of restructuring-related costs that fall away by the end of 2019, creating capacity for reinvestment

In summary, Q2 has been a significant quarter of progress for Barclays. We have completed the sell down of Barclays Africa, closed Non-Core and achieved a CET1 ratio at our end state target of around 13%. We remain encouraged by the resilience of our core business and focussed on the important objective of improving the returns of the Group

With that, I'll turn over to Dan who will talk about the progress we have made on our balance sheet and structural reform this year

Slide 5: Dan Hodge, Barclays Group Treasurer

Thank you Tushar

In half one, we further strengthened our balance sheet, ending the period in a robust position with improved capital, funding and liquidity

Our CET1 ratio grew by 70 basis points to 13.1% on an RWA base of 327 billion sterling, 39 billion lower than at year end driven by Barclays Africa proportional consolidation and continued rundown of Non-Core

On the funding side, we continued our progress on the HoldCo transition with strong market appetite for our HoldCo paper, of which we issued 7.6 billion sterling equivalent, whilst redeeming 1.375 billion of US dollar preference shares

We also continued to deliver on structural reform. In April we received our conditional banking license for the UK ring-fenced bank and we are on track in preparing our Service Company to deliver our operational continuity obligations and drive Group cost efficiencies

In anticipation of the standing up of our ring-fenced bank next year, we returned to the Covered Bond market with a successful one billion sterling 3 year issuance in May

We also completed the triennial review for our UK pension fund, agreeing a revised contribution schedule with the trustees and updating the covenant arrangements to reflect ring-fencing. I'll talk more about the medium term capital benefits of this agreement later

Turning now to look at capital and leverage in more detail on slide 6

Slide 6: Strong CET1 and leverage ratio position

Our CET1 ratio improved by 70 basis points from full year to 13.1% at half one. This was driven by underlying profit generation of 65 basis points, 47 basis points from the sell-down of Barclays Africa and other RWA reductions of 30 basis points. These items more than offset 70 basis points of impacts including the Q1 preference share redemptions, the Q2 PPI provision and pension contributions

Turning to leverage, our sole consolidated leverage requirement is to comply with the UK regime, which we disclose on both a three month average and spot basis and which exempts cash with central banks

In June, the Bank of England published a new consultation paper regarding the UK leverage ratios. It envisages a 3% minimum ratio plus a 25 basis points recalibration to neutralise the exemption for eligible central bank cash balances. When added to the assumed G-SIB and Countercyclical buffers this would represent a requirement of 4% for Barclays, applicable from 1st January 2019

The half one average UK ratio of 4.8% was 30 basis points higher than at full year, driven by a reduction in average UK leverage exposure and a modest increase in average Tier 1 capital

As you can see, we therefore remained comfortably above the expected 4% minimum requirements applicable from 2019

Turning now to slide 7 and our future CET1 ratio expectation

Slide 7: Managing evolving future minimum CET1 levels

As a reminder of our approach to capital planning - we continue to manage our Group CET1 ratio as a function of expected future minimum levels and CRD 4 buffers plus a prudent management buffer designed to maintain the ratio comfortably above our mandatory distribution hurdle and to reflect stress tests

Absent a UK Countercyclical buffer our mandatory distribution restriction hurdle would have been 10.8%

There is a likely increase of the UK Countercyclical buffer to 1% from November 2018, following the announced introduction of a 50 basis points buffer from June 2018. The November increase to 1% would translate to around 45 basis points for the Group based on our UK exposures, which would increase our end-state hurdle to around 11.3% if introduced as announced

Taking into account our stated management buffer of 1.5 to 2%, this results in an expected end-state CET1 range of 12.8% to 13.3% and thus we continue to guide to an expected end-state target for the Group of around 13%

Our half one CET1 ratio is now within our expected end state range and we have material organic earnings capability as the underlying 65 basis points of profit generation in half one demonstrates

On capital ratios, we continue to expect the ratios of Barclays UK and Barclays Bank PLC post ring-fencing to be broadly similar to each other, and to the Group

Our strong capital position provides protection against potential headwinds whilst also affording options for deployment

Looking forward, there are four material capital items I'd like to comment on briefly here: IFRS9, the CRR2/CRD5 package, Basel IV RWA reforms and pensions

Regarding IFRS9, we expect to be in a position to provide an estimate of the CET1 ratio impacts later this year. It looks likely that implementation of this new accounting standard will be transitioned into regulatory capital calculations over a five year period from 1 January 2018 and we would expect the impact to be manageable

There remain two phases of regulatory reform which are now expected to be implemented over a longer time horizon than previously indicated:

First, the CRR2/CRD5 package - which includes new rules for CVA, the standardised approach for measuring counterparty credit risk and the Fundamental Review of the Trading Book. We do not anticipate these coming into effect until 2021 at the earliest

Second, the Basel IV RWA reforms – expected to include a standardised aggregate output floor and changes to Credit Risk and Operational Risk RWAs, amongst others, albeit negotiations at the Basel level are currently stalled

We therefore envisage that implementation timeframes for these changes will commence in 2021 at the very earliest and will incorporate an extended phase-in period

As these proposals are at various stages of development, there remains uncertainty around their impact. As you would expect, we monitor developments very closely and have a strong record of managing our businesses through regulatory change to mitigate adverse impacts should they arise

In terms of RWA trajectory, our Group RWAs at half one were 327 billion sterling. Given the protection and options afforded by our strengthened capital position and our strong organic earnings capability, we have not guided to a specific end-state RWA target for the Group, but focus instead on managing our CET1 ratio. Looking forward, Group RWAs will depend on our assessment of business opportunities and the management decisions we are now able to take to optimally deploy capital

It is also worth mentioning here the capital implications arising from the conclusion of the triennial pension review. A new agreement has been reached which encompasses an updated contribution plan to meet the increased funding deficit over a ten year period and new arrangements to secure the deficit and contributions. Under the new agreement, the UK Retirement Fund remains in Barclays Bank PLC

Compared to the 2013 review, the revised contribution schedule results in a reduction in the cumulative funding contributions for the next four years of around 1.2 billion sterling and increased contributions in subsequent years. These revisions reduce the CET1 impact of pension contributions by around 25 basis points through to 2020

Turning now to slide 8

Slide 8: Evolving CRD IV capital structure transitioning to HoldCo over time

At half year, our total capital ratio was 20.7% on a transitional basis and 19.8% on a fully-loaded basis, representing an increase of 110 basis points and 130 basis points from full year respectively. These increases were driven by CET1 ratio accretion and AT1 and Tier 2 issuance

In terms of the composition of our total capital stack, we remain incentivised to hold at least 2.3% of RWAs in AT1, reflecting the current Group Pillar 1 and Pillar 2A capital requirements permissible in this form

As previously mentioned, we expect to hold a surplus to 2.3% to allow optionality to manage our call profile and to accommodate variability in RWAs over time. We therefore continue to expect to be a regular issuer of AT1

We also continue to expect to hold at least 3% of RWAs in Tier 2 format, again reflecting Group Pillar 1 and Pillar 2A requirements, with the balance between senior and Tier 2, based on relative pricing and investor appetite

Turning now to our MREL position on slide 9

Slide 9: Progressing well on MREL issuance

We have been very active so far this year in a strong market issuing a total of 7.6 billion sterling equivalent from the HoldCo

This 7.6 billion comprised senior debt of 4.8 billion, 1.5 billion Tier 2 and 1.3 billion AT1

We also redeemed our Series 3 1.375 billion US Dollar Preference Shares on 15th March

We retain our previously stated guidance of approximately 10 billion sterling equivalent of new HoldCo issuance in total this year and we expect the balance to be met through a combination of Senior, Tier 2 and AT1

As usual, we will maintain flexibility in our issuance plan and thus we would not rule out some prefunding for 2018

We show on this slide our current HoldCo MREL position compared to expected, end-state requirements

We continue to expect the MREL requirements as at 1 January 2022 to be our binding constraint given that OpCo legacy capital is not expected to qualify from that time

At half one, our HoldCo MREL ratio was 23.2%, compared to 26.8% on a transitional basis

We now expect a Group end-state requirement of around 28.5% of RWAs, taking into account the expected introduction of the Countercyclical buffer and prior to an MREL management buffer

Beyond 2017, we currently envisage average issuance of around 8 billion sterling equivalent per annum to enable us to accommodate some RWA growth over time and to allow for a prudent MREL management buffer

This future issuance remains largely a matter of refinancing legacy OpCo debt, which will remain in Barclays Bank PLC post-ring fencing, given that 26 billion sterling of outstanding OpCo capital and debt matures, or is callable, by 1 January 2022

The CRR2/CRD5 MREL package is in draft form and as you would expect, we fully support the industry's efforts to work with regulators to achieve permanent grandfathering for all HoldCo issuance undertaken prior to legislation being finalised

Overall, we are pleased with the strong track record of HoldCo issuance we have established and would like to acknowledge the work undertaken by investors to enable them to participate in this debt class

Turning now to our liquidity and funding profile on slide 10

Slide 10: High level of liquidity and conservative funding profile

We further strengthened our liquidity position in half one. Our liquidity pool was 201 billion sterling, an increase of 36 billion from full year. The Pillar 1 LCR was 149%, a surplus of 65 billion to 100%. Our NSFR also continues to exceed 100%, well ahead of implementation timelines

The increase in the liquidity pool this year has mainly been driven by a net increase in MREL issuance, drawdown from the Bank of England Term Funding Scheme, higher money market balances and deposit growth. The composition of the pool remains high quality, being cash with central banks and highly rated government bonds

As we have said before, we view the quality and quantum of our liquidity as inexpensive credit strengths. We have been able to further improve our liquidity position, as we finalise the restructuring of the Group and navigate geopolitical and economic uncertainty, using cost efficient sources of funding and without consuming UK leverage, due to the cash exemption

In terms of future wholesale funding costs, if credit spreads remain at current levels, our weighted average cost of new wholesale funding will be lower than the cost of maturing securities, many of which were issued at wide spreads post the crisis. Our overall wholesale funding costs would therefore fall over time

Turning now to slide 11 and structural reform

Slide 11: Structural reform plan remains on track achieving critical milestones as planned

We continued to make significant progress on structural reform this year and remain on track to deliver against our regulatory objectives well ahead of the January 2019 deadline

At full year, we outlined two key operational deliverables to meet the necessary legislative and regulatory requirements of ring-fencing

Firstly, the build out of Barclays Services Limited to become the Group Service Company, or ServCo, to meet operational continuity requirements; and

Secondly, the transfer of the Barclays UK businesses into the new ring-fenced bank legal entity, for which we now have our conditional UK banking licence

We have successfully commenced our sort code migration process to allocate customer sort codes between entities and remain confident in our ability to complete the remaining migrations

We intend to stand up the ServCo in September of this year, at which point the necessary service agreements and internal infrastructure to do so will be in place, and we will migrate assets, contracts and employees at that time

We remain firmly on track for the transfer of Barclays UK into the new legal entity in half one of next year. The Ring-Fencing Transfer Scheme court hearing, and the associated objection process, will be initiated in November of this year and represents an important milestone to achieving separation

The management structure of Barclays UK and Barclays International has been in place for some time now and we feel pleased with the progress we have achieved to date and confident in our ability to complete our plans in line with our stated objectives

Turning now to slide 12

Slide 12: Ratings are a key strategic priority

We continue to target solid investment grade ratings for our continuing entities and for our new ring-fenced bank and we expect that the credit rating agencies will be in a position to provide further clarity on ratings of both existing entities and the new ring-fenced bank later this year

Summarising in turn what the three main rating agencies have said so far

Fitch have communicated their view that they expect the creation of a separately capitalized and ring-fenced legal entity could result in ratings differentiation but they expect this to be small, if any

S&P already incorporates the currently expected implications of structural reform into its senior credit ratings for Barclays Bank PLC. This includes a classification of Barclays Bank PLC as highly strategic to the Group. They have also stated they expect the ring-fenced bank to be classified as core and rated one notch higher than Barclays Bank PLC. However, their views remain subject to finalisation in the coming months

Moody's has not yet publicly indicated ratings expectations for individual ring-fenced or non-ring-fenced banks. However, they have stated that they expect standalone credit profiles of ring-fenced-banks to be in line with, or stronger than, those of existing banks, whereas for non-ring fenced banks they expect these to be in line with, or weaker

As we have said before, ratings are strategically important to us. We continue to focus on execution of our strategy – which we view as supportive of our fundamental credit proposition – to support our ratings over time

So, to summarise on slide 13

Slide 13: Focused on delivery

In half one 2017 we have continued to deliver on the Group's strategy, selling down Barclays Africa, closing Non-Core six months early and delivering strong performance in our businesses

At 13.1%, we are at our end state CET1 target

Our MREL build has continued very successfully

We have further improved our very strong liquidity and funding metrics

Our preparations for structural reform remain firmly on track



And we remain confident in our ability to execute

Tushar, with that, I'd like to hand back to you

Slide14: Q&A

Thank you. I hope you have found this call helpful. Dan and I would now like to open the call to questions

Please go ahead.

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