Barclays PLC HY 2018 Results

2 August 2018

Fixed Income Investor Call Q&A transcript (amended in places to improve readability only)

Paul Fenner-Leitao, Societie Generale:

I think I've got four quick questions, two of which are on Ireland. Could you please just remind us what it was that Ireland has done until recently, ie, before the whole Brexit thing, just to understand what its activities were? And allied to that, at the solo level - I guess at Barclays International nothing really changes on a consolidated basis but at the solo level does that mean that certain businesses are going to be taken out of Barclays Bank PLC? I'm thinking particularly non-UK investment banking so that the risk profile of Barclays Bank PLC solo is going to change, possibly even improve with potential rating implications. Just a little bit of flavour of what's going on there would be very helpful.

Also on Ireland, it's obviously going to get bigger. I guess it doesn't have much of a deposit base. Is it going to start funding and if so what sort of funding might we expect?

The third question is on ratings; you say it's a priority. I'm just trying to understand what it is that you can do besides make more money than last quarter and try to be as sustainable as possible, just to get an understanding of the conversations that you're having with the rating agencies and what it is that you can do.

Then the very last question is on calls. Obviously in AT1 you've got four sizeable calls coming over the next 18 months. I know you're ahead in terms of your AT1 bucket by, I think, some £2.75 billion, something like that but you've got £6 billion worth of calls coming up. I guess the question I have is, do you need to pre-fund in order to call or would you be able to get away with calling without pre-funding the calls over the next 18 months? Thank you.

Tushar Morzaria, Group Finance Director

Ireland up to now was a licensed bank, a local bank, very much focused on corporate banking activity within Ireland itself and was licensed to carry out quite a broad range of activities. It was a relatively small entity. It did operate, in some ways, in a ring-fenced world already; it had or still has an independent board and audit committee, an independent chairperson, etc, so for us it's really more taking something that existed with the right governance and infrastructure but really operationalise it for a broader set of businesses and that's working through quite well.

In terms of the businesses that'll migrate, really any business that as a consequence of the UK leaving the European Union as a licensing matter needs to be done through an onshore licensed bank in Europe. That will entail some corporate activity, some trading activity as well as some investment banking activity and indeed private banking activity.

As Kathryn mentioned, it depends on how you look at it, but in terms of the revenue base of Ireland it's going to be a little less than 10% of the group and in terms of balance sheet just above the 10%.

In terms of the risk profile of what's left in Barclays Bank PLC, if you like, Barclays Bank Ireland's parent, I don't think the risk profile will change significantly so there's nothing in particular I would call out there.

Kathryn McLeland, Group Treasurer

I think the ratings agencies when they look at Barclays Bank PLC will look at the consolidated financial profile of Barclays Bank PLC, which is not at the solo regulated entity so I guess your question around how do we think execution of the strategy will improve the ratings and is that all we can do; I think that is a very important part of improving our ratings. We were very pleased with the Fitch developments in particular for the two legal entities which I mentioned in my comments earlier.

I think that for Moody's, a real focus for them is for us to continue to execute on the strategy. I think this quarter being a very clean quarter, no one-offs in the numbers and strong profitability is really good progress. We clearly need to continue that so we do engage with them very regularly and certainly just continuing to execute on the strategy will be beneficial for the ratings.

Touching on funding of Ireland, I mentioned in my comments that given the funded balance sheet, we plan to support that with mixed and diversified sources of funding. There will be some downstreamed MREL which it will receive from its parents. It also will have high-quality deposits and there are some deposits sitting within Barclaycard Germany. There'll be some wealth deposits and some corporate banking deposits that will also transfer.

They will not be issuing public long-dated senior debt. They will potentially be doing short-dated CPs, CDs and potentially MTNs but similar strategy for that legal entity versus BB PLC and B UK.

Miray Muminoglu, Head of Group Capital Markets Execution - Barclays Treasury

So as we have mentioned, we have been pointing out our AT1 surplus for some time and one of the reasons we pointed to it was to give us flexibility to manage our calls so we think that is a useful tool in our hands over the next 18 to 24 months.

In terms of refinancing ahead of a call or otherwise, it's hard to comment on conversations we have with our regulator but clearly, as you know, they look at these applications under the article 77 and 78 of CRR and what firms like us always do is share our medium-term capital flight path and decisions are made in light of that. So I don't think one would comment on the need to refinance one before the other and as you're aware and I will reiterate, for the past five years we have been and will continue to be a regular issuer of the AT1 so you should expect us to be active with that instrument year in, year out going forward.

Lee Street, Citigroup

How do you view the stress test, is this essentially now just a key exercise in helping you determine what your shareholder capital return strategy will be?

Secondly, thank you for the comments on the June paper on MREL from the Bank of England. Obviously in that paper they suggested that to accept banks had non-CET1 which are outstanding from their non-resolution entity after 2022 could lead to higher end-state MREL requirements.

So my question is, is that just the Bank of England saying, if you've got some outstanding then obviously it shouldn't really work for MRELs to add them on top of the pack to adjust for it or if you take it to mean that the Bank of England tried to encourage banks with operating company debt outstanding beyond 2022 to take it out.

Tushar Morzaria

With stress testing, you're probably aware, there's a whole heap of stress testing that goes on in a company like ours. We do our own internal stress testing that's part of our annual planning exercise as well as more regular stress testing just to ensure we stay within our bounds of risk management and risk limits that we have for ourselves.

In terms of the Bank of England's annual stress test, I think we view this in two ways. I think this one's a little bit unusual in that it's the same scenario as we had previously and in some ways the Bank of England, I think, are trying to isolate the effect of IFRS9 and learn about how that accounting change would impact the stress drawdown on banks and so in some ways it's the same scenario.

In other ways it is quite different because the starting point is different as a macroeconomic matter because the way the Bank of England define the stress is not so much the distance to travel in terms of changing unemployment or GDP but to an endpoint and we're starting off from a better economic position than we had last year. It's probably a slightly more severe stress on a like-for-like basis and then of course you've got IFRS9 as a different accounting framework added in to there.

For us of course, we're a different bank to last year's stress test as well; we no longer hold Africa, we no longer have our non-core unit, we have a higher capital position and in many ways a simpler, more focused bank so I think we're reasonably confident that we should do fine but of course we won't prejudge that. It's with the regulators now and then they'll be looking at it closely. Hopefully that gives you some sense of how we think about it. It is of course also one of the inputs that the PRA will use for setting its annual PRA buffer and that of course is informative to us and indeed the PRA in terms of the capital capacity we have for employing capital to either go back to shareholders or other uses that we may have of it.

Kathryn McLeland

In relation to your question on the paper from the Bank of England, as you can imagine, we do engage with them regularly and I think we'll find that there'll be many discussions between now and early next year when we expect the rules around this and the finalisation of CRR2 to take place.

I think for us - we mentioned in the comments that the key element in terms of our legacy OpCo stack is just the simple freezing of securities that mature in 2022 so we have a very small tail beyond that date, so I think we will engage closely with the Bank of England, follow the discussions as they progress over the coming months but we feel quite comfortable in our position at the moment.

Miray Muminoglu

I think that's absolutely right and to add to that, our understanding of that language is that it will be run by the bank on a case-by-case basis and there isn't really a one-size-fits-all so we don't necessarily see a one-for-one read-across of whatever you're left with that might be added on top of your MREL requirements.

We understand this is, as Kathryn said, one of the many things that the Bank of England will take into account in the overall resolvability of the bank and that's why I think it's going to be a continuing debate.

Arnold Kakuda, Bloomberg

First question on capital; on slide six you detail the difference between the transitional and fully-loaded. Are you guys one of the early ones to disclose this type of reporting? I think your fully-loaded is 12.6% and so can you give us a little bit more detail on the changes that you see going forward? I think you mentioned we should be focused on the transitional but often the market focuses on the fully-loaded so I just want to confirm if your 13% CET1 target is still intact and it really refers to the transitional and not the fully loaded.

Then also with that, I think you changed your language on the management buffer; now it's 160bps. You mention that you're going to review it going forward and potentially the stress test - you see some tailwinds there from before? That's a shift from the 150bps to 200bps range that you had on that so if you can just explain some of your change of thought there it would be great. That's on CET1.

Then shifting over to slide nine on MREL, on a HoldCo basis Barclays is still short of its 29% MREL requirement although you still have until 2022 but given the uncertainty that may rise with Brexit less than eight months way would it make sense to maybe try to increase that £10 billion plan ahead of Brexit?

Kathryn McLeland

On the capital buffer, the 13% that we reported is the transitional ratio. There is an obligation to disclose the fully-loaded ratio. I haven't looked at every other bank but I suppose that I would expect that that's available. Some may just disclose it in their Pillar 3 report; we tend to put those out together with our earnings releases.

There's nothing else between the two ratios; it's just the transitional framework for IFRS 9. We're very much focused on the transitional ratio, really taking our cue from our lead regulator. It's the ratio that the Bank of England puts emphasis on. Obviously we understand that we're under a transitional framework and are comfortable with that and of course for stress-testing purposes and any other form of prudential oversight and monitoring, it's the transitional ratio that's being utilised so we're pretty comfortable with that, but there're really no other changes to that.

The difference between fully-loaded and transitional - they'll convert over time. It's somewhat back-loaded, it's a five-year transitional window and the bulk of the convergence will take place in years four and five. Given our capital trajectory that'll be relatively straightforward for us.

In terms of the management buffer, as I think you heard from Tushar on the equity call this morning, we're very comfortable with our 13% target and at the moment are towards the bottom end of that 150 to 200bps range and you'll be aware that we've had the same capital framework in place for, I think, around five years and when we think about our capital requirements and our targets we really think about three elements. The first is clearly holding a prudent buffer for the MDAs, which are currently 11.4% so we've got 160bps over that; secondly the buffer to the PRA buffer and thirdly, linked to that, to have enough stress capacity in our capital stack.

I think on that we feel pretty comfortable that in the last year we've done a meaningful restructuring, we've set up the two legal entities and are in the process of setting up Ireland. We've got our legal entities' rated and importantly we've addressed meaningful conduct mitigation so that's why we're comfortable running towards the lower end of that 150-200bps range and currently comfortable with 13%. As we said also this morning, I think, on the equity call, we do review the management buffer periodically but at the moment we're certainly comfortable at around 13%.

In terms of the MREL requirement, you asked if we might be thinking about doing more in light of Brexit and some uncertainty in the market. I think we have already got quite prudent plans in terms of our MREL issuance. We've done just over six billion in the first half of the year. We will be careful and cautious as we approach the market for this senior debt and for AT1 debt we indicated we'd be looking to do more by the end of the year.

If of course there is the opportunity to pre-fund any of next year's requirement we might choose to do so but I think at the moment I'd probably encourage you all to think that £10billion will remain the right sort of number for this year.

Aditya Bhagat, HSBC

On the importance of ratings, I just wanted to understand, just looking at where Barclays PLC is rated versus similar capital structures in your peers and on the senior and sub, it looks like it would help if you had that one-notch-higher rating, so is the route to better ratings earnings from here if capital trajectory's going to be stable? Are there other metrics that you're thinking of?

My second one is on funding; just wanted to clarify that I heard that on Barclays Bank PLC for senior funding it's going to be more short-dated and not really medium-term.

Kathryn McLeland

Yes, in terms of the ratings we certainly would agree that we also would like to get improvements in our ratings and help some of the security ratings across senior, Tier 2 and AT1. You are probably very familiar with the various rating agencies' methodologies and the drivers that will move their ratings metrics in a positive direction, but I think it was in response to one of the earlier questions that profitability really will be the main focus for them and for us in terms of delivering that ratings uplift.

So certainly the strong performance we had in Q2 and, I think, the good numbers we also had, the improvement on our CIB in Q4 and Q1 were also good signs. Getting a clean quarter with no one-offs would also be a positive development for the rating agencies, so I think just continuing to execute on the strategy and showing good numbers, consistent execution will be probably the most important element of getting that positive improvement in the credit ratings.

In terms of your second question, Barclays Bank PLC's funding, yes, you're correct. In terms of their sources of funding they do have downstreamed MREL, they have legacy debts already issued at the OpCo level. They do access the MTN market and they issue structured notes and also short-dated CP and CDs.

They have valuable secured funding sources; they've got a very high-quality US credit card book and do ABS issuance from that platform as well but in the term public markets they will be focused on three years and in so you'll remember they did a $3 billion OpCo deal very early in the year but, it will be quite a simple funding model along those lines from BB PLC.

Louise Pitt, Goldman Sachs

I just have a follow-up to the equity call this morning where I know that you mentioned the US pref that is outstanding. That's a decent amount of capital that is sitting at the bank entity and it's currently callable and has been for a while. I wonder if you could comment on what regulatory treatment that's getting when that rolls off and whether you value the currently callable status versus issuing a new AT1 with a non-core five or ten-year period potentially as being more valuable.

Tushar Morzaria

It doesn't count for new-form AT1 but it does, I think, count at the moment as non-performing Tier 1 so it has some value in our capital stack but it's something, if you look at the other tranches, we have been revealing quite regularly.

Kathryn McLeland

In terms of the value in the capital stack it might have a limited amount, as Tushar said, but really this is still a high coupon security. I think certainly it's been callable every quarter for quite some time and senior management have certainly expressed a desire at some point to think about redeeming that. We've not given any indication; we're clearly not able to but it is quite an expensive instrument at the moment so as we get into a very strong capital position and we look at the fewer headwinds in terms of our capital generation we do have options to deploy that capital and one of them could be for this $2.65 billion retail preferred which, as you said, was issued by the operating company, BB PLC.

Corinne Cunningham, Autonomous

On slide nine where you're showing the legacy capital call and maturity profile, the pref is that included in the 2022 Tier 2 maturities?

Miray Muminoglu

They go by the first call date, Corinne, so that's in the 2018 [Tier 1] bucket.

Corinne Cunningham

That looks larger though, the amount outstanding is two billion in sterling, not 1.3.

Miray Muminoglu

Yes, but note that it's an equity account of securities so we keep it at its original starting equivalent, which is £1. 344 billion.

Important Notice

The information, statements and opinions contained in this presentation do not constitute a public offer under any applicable legislation, an offer to sell or solicitation of any offer to buy any securities or financial instruments, or any advice or recommendation with respect to such securities or other financial instruments.

Information relating to:

- regulatory capital, leverage, liquidity and resolution is based on Barclays' interpretation of applicable rules and regulations as currently in force and implemented in the UK, including, but not limited to, the BRRD, CRD IV and CRR texts and any applicable delegated acts, implementing acts or technical standards. All such regulatory requirements are subject to change;
- MREL is based on Barclays' understanding of the Bank of England's policy statement on "The minimum requirement for own funds and eligible liabilities (MREL) – buffers and Threshold Conditions" (PS30/16) published on 8 November 2016 and the non-binding indicative MREL requirements communicated to Barclays by the Bank of England. Binding future MREL requirements remain subject to change including at the conclusion of the transitional period, as determined by the Bank of England, taking into account a number of factors as described in the policy statement and as a result of the finalisation of international and European MREL/TLAC requirements;
- structural reform plans, including illustrations of Barclays business divisions in preparation for regulatory ring-fencing, are subject to internal and regulatory approvals and may change.
- future regulatory capital, liquidity, funding and/or MREL, including forward-looking illustrations, are provided for illustrative purposes only and are not forecasts of Barclays' results of operations or capital position or otherwise. Illustrations regarding the capital flight path, end-state capital evolution and expectations and MREL build are based on certain assumptions applicable at the date of publication only which cannot be assured and are subject to change, including amongst others, holding constant the Pillar 2A requirement at the 2017 level despite it being subject to at least annual review and assumed CRD IV buffers, which are also subject to change.

Forward-looking Statements

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and Section 27A of the US Securities Act of 1933, as amended, with respect to the Barclays Group. Barclays cautions readers that no forward-looking statement is a guarantee of future performance and that actual results or other financial condition or performance measures could differ materially from those contained in the forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'may', 'will', 'seek', 'continue', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'achieve' or other words of similar meaning. Examples of forward-looking statements include, among others, statements or guidance regarding or relating to the Barclays Group's future financial position, income growth, assets, impairment charges, provisions, business strategy, capital, leverage and other regulatory ratios, payment of dividends (including dividend payout ratios and expected payment strategies), projected levels of growth in the banking and financial markets, projected costs or savings, any commitments and targets, estimates of capital expenditures, plans and objectives for future operations, projected employee numbers, IFRS 9 impacts and other statements that are not historical fact. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. These may be affected by changes in legislation, the development of standards and interpretations under International Financial Reporting Standards including the implementation of IFRS 9, evolving practices with regard to the interpretation and application of accounting and regulatory standards, the outcome of current and future legal proceedings and regulatory investigations, future levels of conduct provisions, the policies and actions of governmental and regulatory authorities, geopolitical risks and the impact of competition. In addition, factors including (but not limited to) the following may have an effect: capital, leverage and other regulatory rules applicable to past, current and future periods; UK, US, Eurozone and global macroeconomic and business conditions; the effects of any volatility in credit markets; market related risks such as changes in interest rates and foreign exchange rates; effects of changes in valuation of credit market exposures; changes in valuation of issued securities; volatility in capital markets; changes in credit ratings of any entities within the Barclays Group or any securities issued by such entities; the potential for one or more countries exiting the Eurozone; the implications of the exercise by the United Kingdom of Article 50 of the Treaty of Lisbon and the disruption that may result in the UK and globally from the withdrawal of the United Kingdom from the European Union; and the success of future acquisitions, disposals and other strategic transactions. A number of these influences and factors are beyond the Barclays Group's control. As a result, the Barclays Group's actual future results, dividend payments, and capital and leverage ratios may differ materially from the plans, goals, expectations and guidance set forth in the Barclays Group's forward-looking statements. Additional risks and factors which may impact the Barclays Group's future financial condition and performance are identified in our filings with the SEC (including, without limitation, our Annual Report on Form 20-F for the fiscal year ended 31 December 2017), which are available on the SEC's website at www.sec.gov.

Subject to our obligations under the applicable laws and regulations of the United Kingdom and the United States in relation to disclosure and ongoing information, we undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.