Barclays PLC 2013 Full Year Results Announcement

Fixed Income Analyst and Investor Conference Call

Tushar Morzaria, Group Finance Director

Dan Hodge, Acting Co-Treasurer

Tushar Morzaria, Group Finance Director

Slide 2: Name Slide

Good afternoon and welcome to our Full Year Results Fixed Income call. The purpose of this call is to provide our fixed income investors and analysts with the opportunity to hear about our 2013 results in a way that is relevant to their interests and to ask questions.

Our fixed income investors are important to us and we are committed to providing insight into how we think about key issues that affect your view of Barclays.

I am joined here by Dan Hodge and Peter Freilinger, Acting Co-Treasurers; Steven Penketh, our Head of Execution of Capital and Term Funding; Rupert Fowden, our Head of Capital and Leverage Management; and Craig Goldband, our Head of Funding and Liquidity Management.

Slide 3: Full Year 2013 Results

For those of you who dialled in to the main results call this morning, you would have heard me talk at some length about our 2013 financial performance, which I think is resilient in the light of the significant transition Barclays is implementing and some of the headwinds we faced in 2013.

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The strength, stability and potential for growth provided by our traditional banking businesses outside of the IB I think are particularly noteworthy.

Barclays has a remarkable mix and diversity of businesses that are anchored by traditional retail and commercial banking franchises that have performed well through the crisis and are leaders in their field.

We will continue to invest and grow these businesses, as well as parts of the IB, as we deliver our Transform financial commitments.

You can also see the strength of our business in a number of balance sheet metrics, including funding, liquidity and capital, plus solid credit risk management and net interest margins.

Slide 4: Balance sheet

The balance sheet, today, is considerably smaller than it was two years ago in IFRS terms
It is of higher quality, with higher fully loaded CET 1 capital levels and ratio even under current, stricter regulatory definitions. It has lower leverage, and a more stable funding base.

The bank's retail deposit base increased by 17% over the last 2 years, driving the loan to deposit ratio down to 101%.

In addition, we have continued to extend the duration of our wholesale funding, with our weighted average maturity increasing year on year by 8 months to 69 months.

As you know, we have been gradually reducing and remixing our liquidity pool since a peak in June 2012 to bring it closer in line with regulatory and internal stress requirements. But I would draw your attention to the very high quality assets we continue to hold.

We've have made good progress, too, in managing regulatory capital. CRD IV RWAs are in the range of our £440 billion Group target, and we believe we can continue to manage around that level going forward as the sell down of exit quadrant assets offsets business growth.

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Our estimated fully loaded CRD IV leverage exposure reduced by nearly £200 billion from June 2013 to £1.36 trillion. Excluding FX, this would equate to a reduction of approximately £140 billion.

This reduction in leverage exposure has had minimal impact on the income generating capacity of the franchise.

Our CET1 capital base increased in 2013 through a combination of attributable profit, the rights issue and warrants exercise, although this has been offset by conduct provisions taken at the half year, dividends, an increase in the pension liabilities, and increased regulatory deductions Our fully loaded CRD IV Common Equity Tier 1 ratio stands at 9.3% and I am confident that we will build this further, organically, to meet a 10.5% milestone in 2015.

Our estimated PRA leverage ratio increased to nearly 3% reflecting ahead of plan reductions in leverage exposure, the rights issue and AT1 issuance, and reductions in PRA adjustments Looking ahead, we are now confident of reaching a PRA leverage of 3.5% ratio by the end of 2015 and aim to be in the 3.5% to 4% range beyond that. This would be achieved by reducing our leverage exposure to below £1.3 trillion.

Regulation remains a key variable. While we have clarified some of the uncertainty that was with us for most of the year, it remains in several areas such as US International Holding Company requirements, and UK retail bank ring-fencing.

I hope that we will get further clarity on these issues this year.

The picture, however, is clearer than it was a year ago and I think it's important to highlight that we are already meeting or exceeding many of the regulatory targets ahead of their compliance dates.

With that I would like to hand over to Dan to take you through our capital, liquidity and funding plans in more detail, after which we are all available to take your questions.

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Dan Hodge, Acting Co-Treasurer

Slide 5: Name Slide, Dan Hodge

Thank you Tushar, and good afternoon everyone. I am going to talk about our capital, funding and liquidity positions before touching on structural reform.

You will already have had the benefit of hearing our full year results announcement from Antony and Tushar this morning, and the highlights that Tushar has provided again just now.

The rest of this call will focus on what we see as the key take-aways for the fixed income community, particularly the topics that have the greatest impact on our Additional Tier 1, Tier 2, senior unsecured and secured debt holders.

Decisions made relating to capital, liquidity and funding are interlinked. The impact of changing regulation requires us to continually evolve our approach to each of these within a well-established framework that we have talked about before on these calls.

We think it is important that we continue to be transparent in communicating our plans, and clear in our explanation of the impact that regulation has on our decision making.

Slide 6: Capital

Starting with Tier 1 Capital, the highlight of 2013 was undoubtedly our success in opening up the Additional Tier 1 market for Barclays, with the inaugural issue of benchmark Euro and USD AT1 securities.

With an aggregate nominal balance of £2.1 billion, this represented the target issuance for our PRA leverage plan announced in July last year.

As regards the impact of full year results on bond holders generally, while the strength and stability of our capital base is important to all of our stakeholders, it has added significance for

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our Tier 1 fixed income investors, as it is the primary mitigant to both restrictions on discretionary distributions and trigger events.

As Tushar has mentioned, our reported CET1 ratio on a CRD IV fully loaded basis at year end was 9.3%.

This represents a 230bps buffer to a conversion event in our AT 1 capital, which translates into a nominal buffer to trigger of £10 billion.

The 30bps difference between our Sep 2013 pro forma CRD IV fully loaded CET1 ratio of 9.6% that was presented at Q3 is accounted for by one off regulatory clarifications, notably:

- The accelerated deduction of the 2013 final dividend from CET1,
- PVA adjustments, and
- deductions for investments in Barclays via fund holdings

Other business related movements in capital are broadly offset by the reduction we have made to RWAs.

We remain on track to reach a 10.5% minimum CET1 ratio in 2015.

As we discussed on our AT1 road shows, transparency on Pillar 2A is an important factor in determining where distribution restrictions come in, for all stakeholders.

We have today disclosed how our Pillar 2A translates into a 1.4% add-on to our CET1 regulatory minimum requirements, were Jan 2015 requirements to apply today.

We expect our Pillar 2A to vary at least annually, however the combination of our CET1 flight path and the phasing in of buffer requirements between now and 2019, as shown on slide 6, leads us to believe that the risk profile for AT 1 holders has not materially changed in relation to either a trigger event or mandatory distribution restriction.

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Slide 7: Progressive implementation of CET1 requirements

Despite the fact that the Pillar 2A add-on results in an increase in our end state regulatory minimum above 9%, to 10.4% on a fully phased basis assuming 1.4% Pillar 2A add-on, we remain confident of exceeding that minimum organically while preserving an internal management buffer of up to 1.5% given the combination of:

- our 9.3% spot fully loaded CET1 ratio at 31 Dec 13;
- our intention to reach a 10.5% Fully Loaded CET1 ratio in 2015; and
- the combined buffer requirement not being fully phased in until 2019;

We will, of course, continue to monitor the impact of Pillar 2A, and evaluate efficiencies around the volatility of the risks inherent in its component parts.

As slide 7 shows, this analysis will remain key to determining the appropriate size of the CET1 internal management buffer that we intend to hold at any point in time as we transition to our target end state capital structure.

I would re-iterate what we have said on previous calls on this point - the interests of ordinary shareholders, Tier 1 holders, management and employees are fully aligned in getting the balance right, and we will continue to revisit our thinking on an annual basis as and when the PRA's Pillar 2A requirements become available.

To summarise, it is clear that a fully loaded CET1 ratio in the 11.5-12% range is consistent with our thinking on our end state capital structure, once internal management buffer calibration and other regulatory considerations have been taken into account.

With respect to our Tier 1 capital position more generally, we currently have 2.5% RWAs of legacy Tier 1 and 53bps of CRDIV compliant AT1 outstanding, as against our current end state target of 1.5% of CRDIV compliant AT1, excluding the Pillar 2A add on.

Note that the 1.5% would likely increase by a portion of the total Pillar 2A add-on, from 2015

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As mentioned in previous calls and meetings, excepting a desire to hit our end state capital stack by 2019, we don't have any specific time-line within which to deliver the Tier 1 transition.

Whilst we've been pleased with the success of our recent AT1 transactions, we are also mindful of increasing the cost of our capital base unnecessarily, and will continue to do a prudent cost/benefit analysis of any actions that we might take with respect to achieving that transition For example, while it is currently clear that only CRDIV compliant AT1 will count towards our leverage ratio numerator, legacy tier 1 capital – irrespective of amortization in the capital ratio denominator - could still have intrinsic value as primary loss absorbing capacity.

Slide 8: Funding

Turning to funding, our focus last year was on our rights issue and the entry into the AT1 market.

This year, in terms of issuance, we will be focused on Tier 2 and senior unsecured debt, with a strong bias towards the latter.

This signals a change from 2013, where we issued very little term unsecured debt as part of a targeted replacement of short term wholesale debt with customer deposits to achieve a more diversified and balanced funding profile.

While we grew non-investment bank deposit balances during 2013 by £38bn, short term wholesale funding balances decreased by £20bn.

This caused our group loan to deposit ratio to reduce materially from 110% in 2012 to 101%, as the graph on slide 8 shows. Moreover, the loan to deposit ratio for Retail, Corporate and Wealth businesses was 92% as at 31 Dec 13.

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Going forward we expect customer deposits to grow in line with customer lending such that the loan to deposit ratio remains stable in the low 100s, and the investment bank continues not to be reliant upon retail deposits for funding.

Our overall stock of wholesale debt will continue to fall as we deleverage the balance sheet. We have £24 billion of term debt maturing in 2014 and expect to issue a more normalised amount of £10-15 billion this year in a mix of both public and private senior unsecured and secured transactions - and subordinated debt.

The precise mix of this will be determined on an iterative basis depending on market appetite
The platforms we will use will already be familiar to the market, being public senior unsecured benchmark, private MTN issuance, private structured note issuance and secured term funding, all diversified by currency - and optimised for the bank's balance sheet and our investor base while the final levels for PLAC and MREL remain unquantified by regulators, we continue to see up to 17% being met by Tier 2 debt above our Tier 1 and CET1 capital base as was shown on slide 6.

In addressing our total funding and PLAC needs, we will seek to optimise the aggregate cost of subordinated and senior unsecured debt, and issue both to maintain a stable, diversified funding base across different products, channels and multiple currencies.

Our overall funding plan which I have just outlined will remain adaptable and adjust to factors such as our liquidity risk appetite, movements in retail deposit funding, interest rates and market demand. We could issue more if market conditions remain attractive.

Slide 9: Liquidity Pool

Turning now to liquidity management and slide 9. Barclays guards against the liquidity risks it faces as a global bank by keeping reserves of ready cash and liquid securities, as well as through the maintenance of robust contingent funding arrangements as a further backstop. We

maintain resources to ensure that we can more than meet the obligations we would face in a stressed environment.

Our liquidity risk appetite has not changed, and our commitment to the safety and soundness of the balance sheet remains sacrosanct.

We measure our short term liquidity risk position through both internally defined coverage ratios, and through the externally defined Liquidity Coverage Ratio.

At year end, our liquid asset pool represented 104% of the liquidity required to meet a 30 day Barclays specific stress scenario, and 127% of a 90 day market-wide stress scenario.

Although not a regulatory requirement, the buffer is £45 billion larger than our proportion of wholesale debt that matures in less than one year.

Under the new CRD IV requirement on a fully phased in basis, our LCR stood at 102% at year end.

We estimate we could operate 'as-is', without access to wholesale funding markets, for 42 months in a crisis.

In absolute terms, our liquidity pool stood at £127 billion at year end. Since the half year we've managed down the overall size of the liquidity pool by £11 billion to help reduce leverage exposure without prejudicing our ability to meet our required regulatory minimum.

The size of the pool is now at a more stable level and we do not expect further material changes in the next few years, other than those determined by adverse market conditions or regulatory increases.

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During 2013 we continued to shift the composition towards more eligible securities and less Central Bank deposits as we seek to reduce costs, while maintaining the quality of our highly liquid assets.

Cash and deposits held with central banks accounted for 34% of the liquidity pool. Of the 49% of the pool comprised of government securities, 85% were very liquid obligations of governments, predominantly the UK, US and Germany. This move towards more securities in the pool helped bring the overall cost of liquidity down. We remain on track to reduce carry cost to be close to the 2015 objective of £300m.

It's important to note that we have additional, significant, sources of contingent funding in the form of high quality loans and advances pre-positioned with central banks around the world which we could draw upon during periods of stress.

Finally on liquidity, our longer term funding structure also remains robust. Our estimated Net Stable Funding Ratio at the end of Dec 2013 was 110%, based on the most recent Basel Committee consultation paper, 4 years ahead of when it is expected to become a regulatory requirement.

Slide 10: Structural Reform

Before moving to the Q&A part of the call, I'd like to provide a brief update on regulatory developments that impact structural reform.

We continue to adapt to regulatory change and anticipate, where we can, new requirements for our business. There remain several uncertainties, however, which prevent us from making and announcing final decisions on structures and metrics.

In the past 6 months we have seen material progress however. The 2013 Banking Reform Act has been passed in the UK, establishing a legislative bail-in tool from Jan 2015. It is consistent with the EU Recovery and Resolution Directive which will have a bail-in tool established a year later in 2016.

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On the implementation of ring fencing, the requirements of the 2013 Banking Reform Act are leading us to review our assumed business mix between the ring-fenced and the non-ring fenced bank.

Our original guidance was to minimize the overall level of liabilities within the ring-fence to preserve financial flexibility for the entire group. This was based on our belief that both the ring-fenced bank and the non-ring-fenced bank should be able to work together to optimise all customers' experiences with Barclays.

However, at this point, as we have come to better understand the practical implications of the ring fence for how we interact with our UK customers, the Barclays Ring Fenced Bank may include a broader range of customer products and services than the minimum liability requirements the ICB's recommendations suggest.

We are still actively assessing both the secondary legislation, currently being written, and the potential regulatory clarification needed to determine the ultimate shape of the ring-fenced bank business model.

In the interim, we are already taking "no regrets" actions – such as initiating internal systems design work to enable multi-entity processes, and beginning the process of transitioning our capital issuance from Barclays Bank plc to our holding company, Barclays plc – as we prepare for future change.

In the US, we expect finalisation of rules relating to section 165 of Dodd Frank in the first half of this year.

As in the UK, we remain in dialogue with the FED with regard to the expected impact the proposed rules have for our business. Until they are finalised it is difficult to be explicit about our plans but we have a range of options to accommodate possible changes.

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In the meantime, our leverage plan is being positioned for potential change to US businesses and from a recovery and resolution planning perspective, our US operations are already more resilient and self-sufficient from a funding perspective than they were just a year ago.

We have a good track record of adapting to regulatory change and remain confident that we can do so while minimising the impact on earnings generative power of our franchises.

Slide 11: Key messages

To conclude, before opening the call to Q&A:

We believe our 2013 performance is resilient in light of continued low macro-economic growth in our major markets, as we reduce our leverage and sustainably take costs out of our operations.

The diversified businesses we have in multiple geographies are a source of underlying earnings strength and potential future growth.

Our RWA management has enabled us to offset the impact of new regulations and selectively grow our businesses.

We remain on track to deliver our Transform commitments and are confident the actions we have taken to reduce leverage will not materially impact the revenue generating power of the franchise.

Our capital position has strengthened over the last year, despite stricter definitions, as we target a fully loaded CRD IV CET 1 ratio of 10.5% in 2015.

We have begun, with the successful issuance of AT1 securities, to transition our capital structure to one that efficiently meets regulatory requirements going forward but expect our issuance plans for 2014 to shift towards between £10 and £15bn of term debt from a diversified funding base across different products and multiple currencies.

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Our liquidity position remains strong and our funding base is well diversified between customer deposits and wholesale funding.

We enter 2014 in a stronger position than a year previously, albeit with some regulatory uncertainties remaining.

We are, however, confident in our continuing ability to adapt to this change. Tushar, back to you.

Thank you, with that I would like to open the call to questions. As a reminder we are joined here by:

- Dan Hodge and Peter Freilinger, Acting Co-Treasurers
- Steven Penketh, our Head of Execution of Capital and Term Funding
- Rupert Fowden, our Head of Capital and Leverage Management, and
- Craig Goldband, our Head of Funding and Liquidity Management

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