

Barclays PLC 2014 Interim Results**Fixed Income Analyst and Investor Conference Call****Tushar Morzaria, Group Finance Director****Dan Hodge, Group Treasurer****Slide 2: Name Slide - Tushar Morzaria, Group Finance Director**

Good afternoon and welcome to our Interim 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 half year results and to do so in a way that is relevant to your interests and to have the opportunity to ask questions.

I'm joined here by Dan Hodge our Group Treasurer and Steven Penketh, our Head of Capital Markets Execution.

Slide 3: Steady performance in traditional banking franchises

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 HY14 financial performance so I'll only provide a brief summary here.

Group adjusted profit was £3.3 billion in H1, down 7% and that was driven largely by a 12% reduction in income to £13.3 billion primarily in the Investment Bank.

Without the headwinds from foreign exchange movements our Group adjusted profits in this half would have been up 5% year on year.

We increased income in Personal and Corporate Banking, or PCB, and Barclaycard and Africa banking was up on a constant currency basis.

Impairments for the first half of 2014 improved by 33% to £1.1 billion.

We continued to make good progress on reducing operating expenses and the total Group cost base fell by 9% to £8.9 billion. That was driven by improvements across all businesses.

Included in this are costs to achieve charges, which were £494 million in the half.

Within these Group numbers are core and non-core business performance, which I will also cover briefly.

Our core businesses performed well and we generated an ROE of 11%.

Profits in PCB and Barclaycard increased by 23% and 24% respectively and Africa Banking was up as well on a constant currency basis.

Investment bank performance continues to be impacted by challenging trading conditions, especially in the Markets businesses, but its performance is broadly as we expected.

So, headline core adjusted profits were just over £3.8 billion for the half.

On costs the significant progress we made in Q1 continued in the second quarter. Core operating expenses in H1 were £7.9 billion. That's down over 4% on last year. Excluding CTA charges, we reduced expenses by 7% year on year.

Impairment in our Core businesses improved by 13% driven by PCB and Africa, contributing to the Group Loan Loss Rate of 45bps.

We continue to see favourable credit risk metrics and we expect conditions to remain broadly stable in the near term. For the full year, I have seen the implied consensus impairment for the overall Group in H2, which I am broadly comfortable with.

Our Non-core unit reported declines in income, impairment and costs, as expected. That resulted in a decrease in attributable loss from £619 million to £464 million. As you know, we expect operating losses to continue through our planning period to 2016.

But, managing the capital requirement of non-core is as important as managing the operating losses and I'm pleased to report that we have had a strong start in running down assets in Barclays Non-core.

Since the start of the year we've reduced non-core RWAs by £22 billion to £87 billion mostly driven by sales and pay-downs.

The result of the reduced loss and lower allocated capital is that the drag on Group RoE was 4.5%, compared to 7.4% for the full year 2013. We're pleased with that.

Slide 4: Strong credit fundamentals provide a platform for long-term sustainable returns

Turning to slide 4 and our strong credit fundamentals.

In the first half of 2014 we generated £1.2 billion of capital from profits in the period... and that was despite the headwinds from £900 million of PPI provisions.

After regulatory deductions, dividends and other reserve movements, retained regulatory capital generated from earnings increased CET1 by £400 million.

You will have seen that our 2013 full-year RWA estimates have been revised to £442 billion as a consequence of a point in time adjustment to our earlier CRD IV RWA estimates.

This revision has come as a consequence of regulatory filings made in June and had a circa 15bp impact on full-year and first quarter CET1 ratios.

Our fully loaded CRD IV CET1 ratio has increased as a consequence by 80bp to 9.9% on a like-for-like basis. This reflects the underlying ability of our businesses to generate capital and our success in reducing RWAs.

We expect to progressively accrete capital and further reduce RWAs in subsequent quarters and we're well on the way to our 2016 target of over 11% CET1.

Our PRA leverage ratio has also continued to improve, finishing H1 at 3.4%. That's comfortably above the PRA request of 3%, with a reduction of £99 billion in leverage exposure over these 6 months.

So, with that, I'd like to hand over to Dan to take you through our capital, liquidity and funding plans in more detail, after which we'll take your questions.

Slide 5: Name slide - Dan Hodge, Barclays Group Treasurer

Thanks Tushar, and good afternoon everyone.

The rest of this call will focus on what we see as the key take-aways for the fixed income investor community.

I'll give you our views on capital, funding, and liquidity as well as touching on regulatory reform.

I'm pleased to say that the Bank continues to make good progress on a number of key balance sheet metrics and not least on leverage, where we've successfully exceeded the minimum 3% leverage request set by the PRA in July last year.

Our updated strategy rebalances the Group's earnings and is expected to improve its financial strength and performance over time.

A smaller Investment Bank and less volatile earnings are good from both capital and liquidity management perspectives. Capital and leverage progression are embedded in the Group's plans and articulated in the financial commitments we have made to the market.

From a Treasury perspective our focus is on implementing robust capital, funding and liquidity plans that capture the diversification benefits of the Group while also maintaining flexibility in order to meet still evolving regulatory requirements in the jurisdictions in which we operate.

Slide 6: Progressive strengthening of capital and leverage ratios reflect focused capital and balance sheet management

Let me start then with the progressive strengthening of our capital and leverage on slide 6.

Our capital glide path requires an underlying trend of capital accretion of on average 50 basis points per annum. That's the equivalent of £2 billion of retained earnings net of dividends per annum even without the effect of further RWA reductions. In practice, we continue to target a net reduction of RWAs over the next few years in addition to such capital accretion.

There will be some volatility on a quarter by quarter basis, as you might expect, but the more important factor is the sustained annual trajectory.

Our fully loaded CET1 ratio has already increased to 9.9% in the first half of 2014, from 9.1%, and that represents strong progress.

As Tushar has said we're on target for a CET1 ratio of greater than 11% by 2016.

Given the on-going conduct and litigation risks, we have factored in general overlays to capital accretion into our plans. We're confident we can still meet our desired glide path.

Leverage exposure reductions in the first half of 2014 of £99 billion have come from derivative efficiencies, principally in the non-core investment bank via reductions in derivatives PFE and regulatory exposure for repos, partially offset by an increase in settlement balances.

In June 2014 the PRA updated their Supervisory Statement 3/13 requiring Barclays and the other major UK banks and building societies to meet a 3% fully-loaded leverage ratio on the revised BCBS basis from 1 July 2014 onwards. This ratio calculation does not include the headwind deductions that featured in the PRA leverage ratio.

On the stricter BCBS fully loaded ratio definition of leverage the Group already estimates a 3.4% ratio, demonstrating the business' continued ability to absorb regulatory change.

We intend to run the business on a BCBS leverage ratio of greater than 4% by the end of 2016 and we expect to achieve that through a balance of capital accretion and reduction of leverage exposures in the non-core business and core investment bank where such reductions more than offset planned growth in PCB, Cards and Africa.

We've made good progress on reducing leverage exposure to date and we're on track to meet the levels of deleveraging set out in our 8th May strategic announcement for end-2016.

Should end-state regulation require the Group to meet a higher requirement, we can go further. We manage the business to optimise between both capital and leverage constraints and we have the tools and flexibility to adapt.

Our deleveraging will enable us to meet legal entity as well as consolidated leverage requirements. The primary example of this is the US, where reductions in our secured financing book will enable us to meet US intermediate holding company leverage requirements.

The successful execution of our legacy Tier 1 capital exchange in June, which created £2.3 billion of new Additional Tier 1 capital had a 17bp impact on the leverage ratio and demonstrates further progress in our plan to transition to our end-state capital structure, which I'll now turn to.

Slide 7: Continued progress on the transition towards our 'target' end-state capital structure

Moving to slide 7, our total capital ratio at the half year was 16% on a PRA transitional basis, and 15% on a fully loaded basis.

After the Tier 1 exchange, we're over half way to meeting our currently assumed 2% AT1 target with £4.3bn of qualifying AT1 securities outstanding and £4.6bn when minority interests are included.

The exchange allowed us both to retire some of our legacy Tier 1 instruments that have less regulatory capital value under CRD IV and transition our capital stack further to HoldCo.

We have guided previously that we'd expect to issue most of our capital out of HoldCo, as we move towards the Bank of England's expectations of a single point of entry model. This remains the case.

Our first issuance of Tier 2 from HoldCo was unfortunately delayed mid-execution as a consequence of the filing of the New York Attorney General's dark pool complaint, to which we have now responded.

This was regrettable from a timing perspective but the decision not to proceed was taken in the interests of investors and the wider market and it was justified by the immediately ensuing negative spread movement in our subordinated debt.

As mentioned previously, we continue to target an end-state total capital ratio (that's CET1, AT1 and T2) of least 17% for planning purposes, until we have further clarity from the FSB for international GLAC requirements. We'll continue to issue out of HoldCo knowing it is likely that the GLAC requirement will be above 17%, given the 20% to 25% range that is expected.

We'll update the market on the impact on our end-state capital structure and its interaction with GLAC when the regulatory position becomes clearer.

GLAC is an important component of the overall capital structure of all systemically important banks in a structurally reformed world but it's not the only driver of our final capital requirements or its allocation within the Group.

Barclays' ring fenced bank will be a material entity within the UK banking system and it will have standalone capital and leverage requirements which may be higher than those at the Group consolidated level.

Our thinking on the size and scope of the ring-fenced bank is evolving and we'll be in a position to communicate our plans more fully when we have further clarity on regulation via secondary legislation passing through parliament currently and subsequently, more detailed regulatory rules from the PRA.

From what we see currently, we believe this is a manageable issue for Barclays.

In addition to this we're working on the shape and structure of our US Intermediate Holding Company and we'll submit our plan to the FED by 1 Jan 2015.

It is important for the Bank to have a clear view of the whole Group structure before guiding on any individual component and so we expect to come back to the market next year to provide guidance on the overall end-state corporate structure of the Group, once we have Board sign-off on those plans.

Slide 8: Maintaining a robust liquidity position, with pool well in excess of internal and external minimum requirements

I'll turn now to slide 8 on liquidity, before finishing on funding, and opening up the call for Q&A.

Liquidity pool assets increased over the half year from £127 billion to £134 billion, meeting Barclays' liquidity risk appetite framework and in excess of regulatory requirements.

This relatively modest increase was due to accelerated deleveraging.

The liquidity pool remains high quality. Cash and deposits held at central banks accounted for 31% of the liquidity pool. Of the 52% of the pool comprised of Government securities, 44% were very liquid obligations, predominantly of the UK, Germany and US.

The liquid asset pool at 30 June 14 represented 107% of the liquidity required to meet our internal 30-day Barclays specific stress.

That represents a buffer of £9 billion above our internal minimum stressed outflows.

The estimated LCR was also 107% at H1 equating to a £9 billion excess on the expected CRD IV defined 100% standard for 2018.

The LCR has increased primarily as a result of growing the liquidity pool and extending the tenor of wholesale unsecured and repo financing.

The liquidity pool is also £50 billion larger than our proportion of wholesale debt that matures in less than 1 year.

Our weighted average maturity of wholesale funds net of the liquidity pool was at least 80 months at H1 compared to 69 months at the full year.

Our longer term funding structure also remains robust. Our estimated NSFR in H1 2014 increased from 110% to 113% under the CRD IV calculation and it also increased to 98% from 95% under the latest BCBS definition.

We expect to exceed 100% well before the 1 January 2018 compliance date as repo funding in the non-core bank declines.

Slide 9: We maintain access to stable and diverse sources of funding, across customer deposits and wholesale debt

Moving on to funding and slide 9.

We use two measures for Loan to Deposit Ratio in the management of our asset/liability profile.

The LDR for the Group including wholesale funded businesses, trading settlement balances and cash collateral was 100%. That compares to 101% at the end of 2013, showing continued balance across deposit and wholesale funding.

The Loan to Deposit Ratio for PCB, non-core retail, Barclaycard and Africa was broadly unchanged for the half year at 92%. This ratio is very close to 100% when the contribution to the liquidity pool for those businesses is included, making them broadly self-funded.

During H1 we were very active in wholesale funding markets and we successfully completed £9 billion of term funding, net of early redemptions, plus £6 billion raised through participation in the Bank of England's Funding for Lending Scheme.

We completed 8 public benchmark senior unsecured transactions in the first half of the year in US Dollar, Euro, Australian Dollar and Yen.

We saw consistently strong investor demand for these transactions. We're pleased that we can continue to access diverse funding markets after a period of time focused on capital transactions.

In secured, we have successfully issued \$1.3 billion from our US credit card business and continued to attract significant new investors to Dryrock, the newest of our funding platforms.

We recently also issued £750 million from our UK card securitisation platform, Gracechurch.

Our overall stock of wholesale funding, however, continues to fall as we de-lever the balance sheet. We have £12 billion of term funding maturing in the remainder of this year.

You can expect us to look for issuance opportunities across unsecured, secured and capital and still be materially below overall maturities for the year of £24 billion.

The precise quantum and mix will depend on market conditions and the progress we're able to make in the sell down of Non-Core assets as we look to maintain a stable and diverse funding base by type, currency and distribution channel.

Funding and liquidity continues to be managed centrally for the overall benefit of the Group. Costs are allocated from head office to businesses through our funds transfer pricing model. Capital and funding instruments are not individually allocated.

The deleveraging of our balance sheet will ultimately lead to lower absolute wholesale funding requirements. But with significant levels of maturing debt, future GLAC requirements to plan for, and supportive market conditions, you can expect us to continue to be a regular issuer.

Slide 10: Summary

So let me conclude on slide 10, before handing back to Tushar who will open the call up to Q&A.

Post the strategy update in May, and the consequent changes we're making to the business, Barclays continues to focus on maintaining a core set of businesses that deliver less volatile performance with a clear trajectory of capital, leverage and ROE ratio improvements for the Group.

We continue to benefit from the diversity of the businesses in Barclays portfolio and we're positioning ourselves for future growth through the managed sell down of Non-core.

We are conscious that significant work is still required to meet the requirements of structural reform in a way that manages the expectations of all our stakeholders.

However, we continue to be confident in our ability to adapt and the changes we're making at a consolidated and legal entity level will ensure we meet our requirements.

That's illustrated by the reduction in our secured financing book to meet bank consolidated and US IHC leverage requirements and by our issuance of AT1 out of the HoldCo.

Our financial commitments are underpinned by robust capital, liquidity and funding plans that can adapt to changing business and regulatory environments.

Our liquidity pool remains large, is high quality and in excess of increasing regulatory requirements.

Our term funding continues to be diverse with new issuance well received by the market.

We've strengthened our capital position and we're well on our way to our 2016 target of over 11% CET1.

We have exceeded the PRA's leverage request over the past 12 months and are already in excess of the 3% leverage requirement calculated on the BCBS go forward basis.

We aim to deliver a leverage ratio above 4% in 2016 with a flexible plan to adapt to higher requirements in end state if required.

So, in summary: while we have further to go in delivering our 2016 targets our progress to date has been strong and we remain confident of meeting those targets.

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