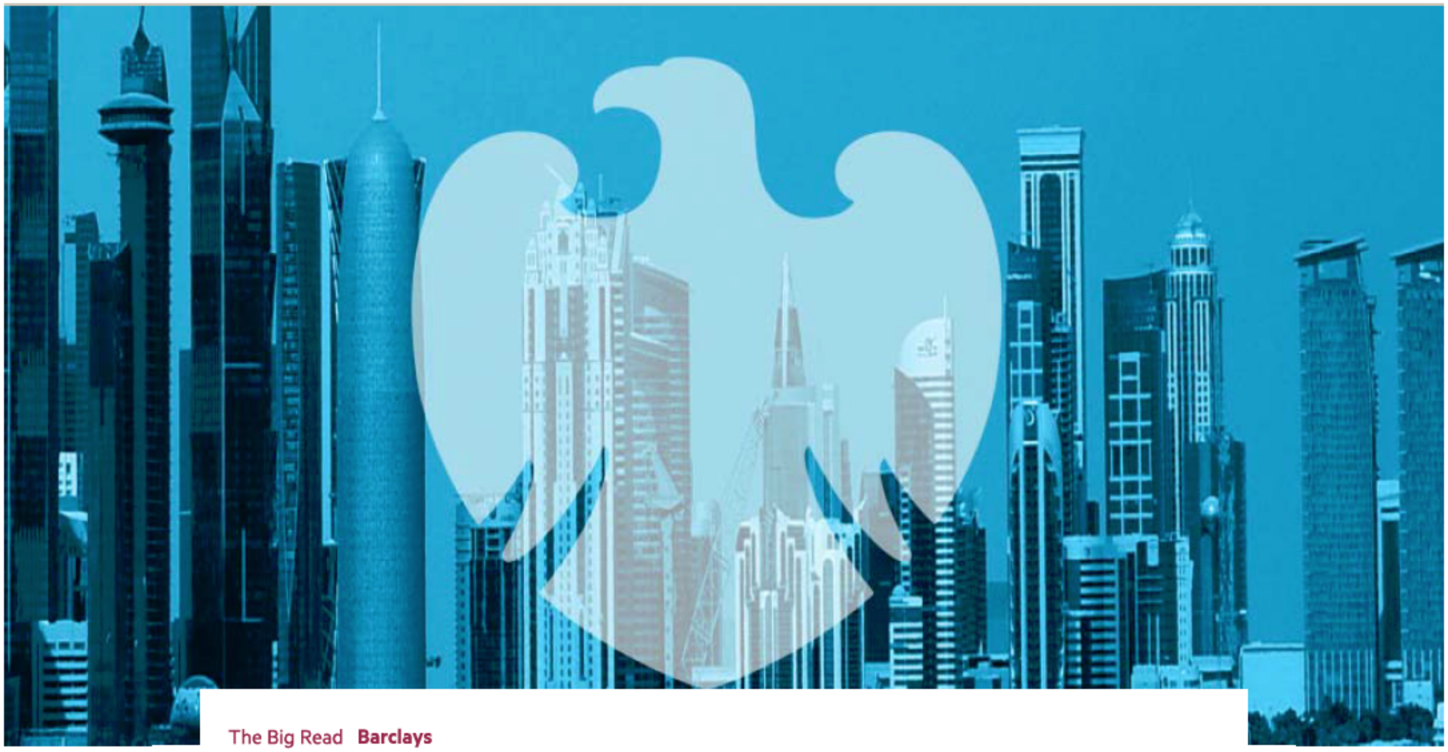

The Big Read Barclays

Qatari connection casts long shadow over Barclays

The UK bank faces the conclusion of a criminal probe over rescue deals made following the crash

YESTERDAY by: Caroline Binham

On a balmy evening in 2007, the Tunisian wife of an Italian industrialist introduced a high-flying Scottish banker at Barclays to the Anglophile prime minister of Qatar — the sort of nexus of celebrity, power and money that takes places every summer on Sardinia's Costa Smeralda.

This encounter proved more important than most. Just over a year later, as the worst financial crisis in a generation created havoc across the industry, Barclays (https://www.ft.com/topics/organisations/Barclays_PLC) was suddenly under threat and in desperate need of outside funding.

Roger Jenkins, then head of Barclays' principal investing group, would be the one to secure it. Over the course of 2008 he masterminded two deals with a man he met in Sardinia the previous summer: Sheikh Hamad bin Jassim bin Jabr al-Thani (http://next.ft.com/content/98477922-0227-11e6-99cb-83242733f755), at the time Qatar's prime minister and chair of the country's sovereign wealth fund. Known as HBJ, he would help pump a total of £6.1bn into the bank. The goal was to save it from government ownership, even as its rivals Royal Bank of Scotland (http://markets.ft.com/data/equities/tearsheet

/summary?s=uk:RBS) and Lloyds Banking Group (http://markets.ft.com/data/equities/tearsheet/summary?s=uk:LLOY) were bailed out.

The plan worked. But nearly a decade later, the long shadow of that emergency funding still hangs over the bank. Today, those frantic cash-raising efforts are at the centre of the only UK criminal case from the crisis era in which senior bank executives face the possibility of charges.

Former Qatari PM Sheikh Hamad bin Jassim bin Jabr al-Thani, PCP Capital's Amanda Staveley and UAE deputy PM Sheikh Mansour bin Zayed al-Nahyan

Side arrangements that Barclays promised to Qatar have prompted a litany of litigation and investigations over whether Barclays properly disclosed fees paid to the Qataris — and whether it secretly loaned them money to then reinvest in the bank. The side-deals include a one-page agreement that was never approved by the bank's board.

As well as criminal and regulatory inquiries, Barclays is also facing a whistleblowing claim from one of its most senior bankers at the time, who has co-operated with investigators (http://next.ft.com/content/17307eb8-b17e-11e6-a37c-f4a01f1b0fa1). There is also the $1bn lawsuit (http://next.ft.com/content/eaee34c4-ea32-11e6-893c-082c54a7f539)filed by a financier with Gulf connections over side deals. The bank denies wrongdoing and is contesting all the cases.

“Would it be in the bank's best interest to move on from all of this? Self-evidently, yes,” says one senior bank source. “But not at any price.”

Those matters are now coming to a head. The Serious Fraud Office (https://www.ft.com/topics/organisations/Serious_Fraud_Office_UK) has pledged to make a charging decision in the criminal case, which the bank has codenamed Cadmium, by the end of March. Mr Jenkins is a suspect in the case and has been interviewed under caution — when individuals are read their rights — as have former chief executives John Varley and Bob Diamond and a handful of top managers.

Roger Jenkins, Barclays' former head of principal investing and former Barclays chief executives John Varley and Bob Diamond, centre and right © FT montage / Getty

If senior executives are charged, Barclays risks a corporate prosecution because the executives could constitute a "directing mind" of the company under UK corporate criminal liability laws. Lawyers for Mr Diamond, Mr Varley and Mr Jenkins declined to comment. Barclays said it could not comment, citing continuing legal matters.

The Financial Conduct Authority (http://next.ft.com/content/073efae2-0e2c-11e7-b030-768954394623), meanwhile, has reignited its own parallel investigation after determining four years ago that Barclays should pay a £50m penalty for disclosure violations.

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The timing could not be worse. Eager to cement its post-Brexit future, the UK is again hoping to persuade Qatar, which still retains a 6 per cent stake in Barclays, to open its coffers and is welcoming a delegation for an investment conference at the end of this month.

Qatari investments top £35bn in the UK, according to the Qatar-UK Business and Investment Forum. That includes trophy assets (http://next.ft.com/content/dc99ef1e-de45-11e2-9b47-00144feab7de) such as the Shard, the 1,000ft tower that looms over the City of London, and iconic institutions such as Harrods and Claridge's. Last week, Mr Diamond's new firm teamed up with QInvest, whose board is headed by one of HBJ's sons, to launch a bid for Panmure Gordon (http://next.ft.com/content/7c5d6416-0b30-11e7-97d1-5e720a26771b), the City stockbroker.

A separate £72m fine meted out by the FCA on Barclays in 2015 underscores the continuing Qatari influence on the bank. In 2011-12, Barclays skirted money-laundering controls to land a £1.9bn transaction dubbed the "elephant" deal (http://next.ft.com/content/6ef6c5b4-9422-11e5-b190-291e94b77c8f). The client accounts at the heart of that case were connected to HBJ and his relatives, according to five people familiar with the situation, though the bank's failings were procedural and the clients were not suspected of wrongdoing.

Meanwhile, even though Barclays is still committed to the Gulf region, the bank's own strategy there has in effect been put on hold until the various matters are resolved, according to a bank official, who, like the dozen other individuals to whom the Financial Times spoke, would only do so anonymously because of legal sensitivities.

HBJ, who stepped down as prime minister in 2013, and Qatar Holding, a subsidiary of Qatar Investment Authority, the sovereign wealth fund, are not suspected of wrongdoing in the investigations and are not part of investigators' focus. Lawyers for both HBJ and Qatar Holding declined to comment.

HBJ told the FT last year that Qatar did everything in the "right, legal way". He added that Barclays represents "a good investment. I regret the noise. We thought we had helped the British economy at a bad time and that someone would thank us for it."

Qatar is still sensitive about how the case looks, according to one City official. "The big question is what attitude the Qataris are taking now with the British government." Yet any attempt by the UK government to intervene in the case would rile the SFO.

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Barclays may have maintained its independence but has still suffered a turbulent decade. Unlike other banks, it is continuing to contest US findings about the alleged mis-selling of mortgage-backed securities before the crisis, while the Libor-rigging episode felled Mr Diamond. The strategy of his replacement, the retail-minded Antony Jenkins, has been ripped up in favour of a refocus on investment banking (http://next.ft.com/content/22ce28a8-73ed-11e5-bdb1-e6e4767162cc) backed by current chief executive, Jes Staley.

As the criminal investigation into Barclays nears its deadline, the bank hopes that the SFO might offer a new type of plea deal to settle the case. However, David Green, the SFO director, is adamant that deferred prosecution agreements are only available to companies that fully co-operate: Barclays fought the SFO in court over accessing 100,000 documents. The bank claimed they were covered by legal privilege, which keeps confidential the advice between lawyers and clients.

The bank did eventually partially waive privilege, instigating a wave of fresh interviews by the SFO. In all, 44 people have been questioned.

Banking news

One of those was Richard Boath, once Barclays' chairman of financial services, who is now at the centre of a separate whistleblowing claim. When Barclays learnt what he had told investigators, the bank fired him (http://next.ft.com/content/aac35d91-00af-308f-b89c-1a5364e791bb), his lawyer alleged at a pre-trial hearing to his claim. SFO concerns about the overlapping nature of the cases has pushed back Mr Boath's employment tribunal until later this year. He declined to comment.

City watchdog relaunches probe into Barclays' cash call (http://next.ft.com/content/073efae2-0e2c-11e7-b030-768954394623)

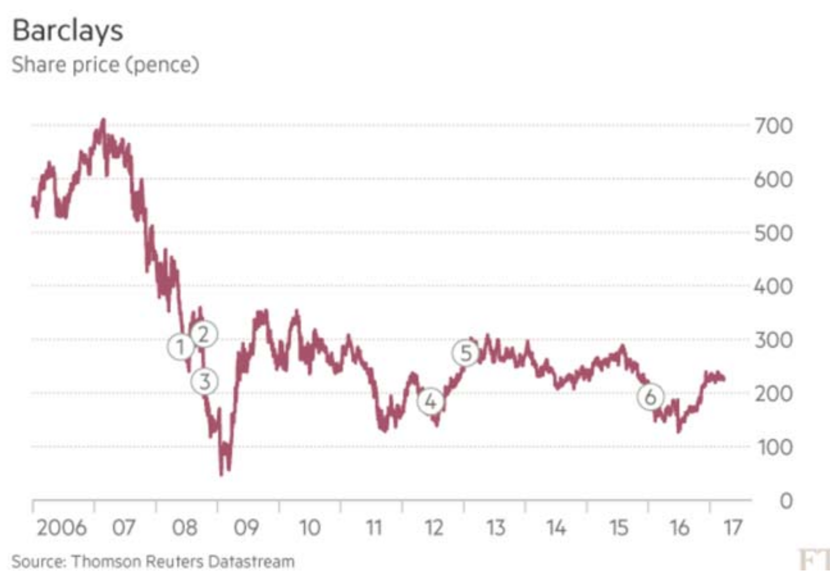
Financial Conduct Authority is re-examining £7.3bn fundraising bank undertook in 2008

At the same time, the bank is also being sued for £721m (http://next.ft.com/content/0787d722-d718-11e5-829b-8564e7528e54) plus interest by PCP Capital Partners, a private equity company that was involved in the emergency fundraising — a case whose court documents lift the veil on the frenetic negotiating that took place over little more than a week.

PCP is run by Amanda Staveley, who is known for her Middle Eastern contacts. In the autumn of 2008, she was fresh from arranging a deal for another asset-hungry Gulf royal, Sheikh Mansour bin Zayed al-Nahyan of Abu Dhabi. who had just bought Manchester City Football Club for £200m. He invested £3.5bn into Barclays alongside HBJ and Qatar Holding during the bank's October 2008 cash call, for a total of £7.3bn.

PCP argues that it arranged the Abu Dhabi side of the investment, initially as a principal. The bank counters that it only viewed Ms Staveley as an adviser to Sheikh Mansour, now deputy prime minister of the United Arab Emirates, implying a much less significant role.

Barclays' troubles



1. June 2008 Barclays announces £4.5bn share issue, underwritten by Qatar Holding, Qatari prime minister HBJ and Temasek of Singapore, among others

2. Sept 2008 Lehman Brothers' bankruptcy rocks financial markets across the world

3. Oct 2008 Barclays announces second £7.3bn fundraising from Qatar Holding, HBJ and Sheikh Mansour of Abu Dhabi

4. June 2012 Barclays reveals FSA probe into the fundraising just as it pays separate

£280m fine for Libor-rigging. This claims its chief executive, Bob Diamond.

5. Jan 2013 FT reveals new element to FSA and SFO probes: whether Barclays loaned Qatar the money to reinvest during the cash call

6. Jan 2016 Amanda Staveley's PCP files a $1bn lawsuit against the bank over the Oct 2008 deal, alleging deceit

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Both the SFO and PCP cases against the bank turn on two side-deals promised to Qatar — and which have since become the subject of intense scrutiny. The fees, deals and loans top £2.4bn, according to court documents, which matches what Qatar initially invested in the October 2008 fundraising that allowed Barclays to avoid a bailout.

The Qataris had already invested in Barclays during a £4.5bn fundraising — one of the two deals negotiated by Mr Jenkins in 2008. At the time, the bank also entered into a so-called advisory services agreement, or ASA, with Qatar Holding, for £42m, in exchange for helping it develop business in the Gulf.

Mr Varley signed the June ASA as chief executive after it was approved by the board, said a senior bank source. The agreement was disclosed in the approved prospectus of the June cash call, but the amount was not quantified.

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But the financial crisis deepened: the Qataris had subscribed in June for ordinary shares at 282p. By October 10, Barclays shares traded at 207.5p. That weekend, the Treasury held an emergency meeting over whether to bail out Royal Bank of Scotland, HBOS, Lloyds Banking Group and Barclays. The latter managed to persuade the government that it could boost its balance sheet by selling off its asset management arm and raising external capital.

Barclays then tried to sell debt to institutional investors but had little positive response. That led to the £7.3bn fundraising now under scrutiny, which was structured as a mix of debt, through products called reserve capital instruments or RCIs, and equity-like products.

The bank also extended its ASA with Qatar, this time for much more: £280m was promised. PCP argues that this was a sham designed to recompense the Qataris for their earlier June investment, and to induce them to invest once more. The bank denies this and says the ASA was for legitimate services.

Lunch with the FT

Lunch with the FT: Sheikh Hamad Bin-Jaber al-Thani (http://next.ft.com/content/98477922-0227-11e6-99cb-83242733f755)

Also under scrutiny is a $3bn loan to Qatar's finance ministry, which Barclays agreed in November 2008 before the fundraising was completed. PCP alleges this had the effect of loaning money to Qatar to then reinvest — which would be an illegal propping up of a Barclays' own shares. The bank says there was a clause prohibiting such reinvestment.

The extension of the ASA was signed not by Mr

As PM of Qatar he invested in Britain and intervened in the Arab Spring. In one of his luxury London hotels he talks about what went right — and what went wrong

Varley but by Roger Jenkins, according to those who have seen the document. It did not receive Barclays' board approval and it was not disclosed to the market at the time of the announcement of the fundraising.

"The management agreed an extension of the ASA as part of the debt agreement but that was not disclosed," says one person familiar with the deal. "This was a debt issuance so disclosure was less than it would have otherwise been. It did not come to the board specifically that it had been extended."

One former official who saw the ASA documents remarked how brief they are "given the sums being moved about". Another says: "They barely get over a page and the amount is handwritten. I thought: 'Well, this doesn't look entirely convincing.' But then again, the counterargument is that if the bank really wanted to deceive then they would have made it look a lot better."

When the old City regulator, the Financial Services Authority, first started looking at the deal in 2011 following a routine check, Chris Lucas, the former finance officer at the bank, attested that the ASA was not contingent on the fundraising, and was instead an arm's-length transaction.

Mr Lucas is also one of the individuals who has been interviewed under caution by the SFO. He denies wrongdoing.

"No one who knows John Varley or Chris Lucas thinks they did anything wrong," one former colleague attests. "They would never have done anything without legal advice. These people had no intent other than trying to do the best thing for the bank and, indeed, the wider UK economy."

The SFO has its own critics for its decision to take on a case that the regulator had already ruled on. "This really was their one last chance," one former regulator says of the bank's fundraising. "The SFO has been at this for five years — it's time to piss or get off the pot."

SFO: Investigator's capabilities under the spotlight

It is not just Barclays which is under pressure. The Serious Fraud Office is also under scrutiny.

The investigation into the bank is littered with political sensitivities for the SFO. The agency has received special Treasury funding for its five-year investigation. Yet it has had run-ins with Theresa May, the prime minister, who as home secretary tried to roll the SFO into an FBI-style agency (http://next.ft.com/content/e15dc7c0-4ae9-11e4-b1be-00144feab7de) with a budget under her control.

SFO concerns have been reignited by a Cabinet Office review of the UK's capability in fighting economic crime. The audit is scrutinising performance and will consider all options, including the merging or shutting of agencies. Then there are the UK's efforts to cement its post-Brexit future with international trading partners; the SFO's decision is expected just as a Qatari delegation arrives to talk about UK investment.

Britain's attorney-general can intervene in prosecutions if it is deemed against the public interest, as happened when the Blair government in 2006 halted the SFO's probe into alleged bribery in Saudi Arabia by BAE Systems. Had the SFO decided to run a bribery case against Barclays, it would also have needed consent from the attorney-general to bring charges. The SFO decided against this strategy because it would have had to rely on old laws, dating back to 1906, where a key defence is "principal's consent": if payments are known about by a principal of an entity — such as a head of state — they cannot be construed as corrupt.

The law has since been changed to take away this defence, but would not apply to the Barclays case.

Instead, the SFO is examining whether Barclays committed fraud or misled the market.

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