Barclays PLC Q2 2018 Results

Sellside Breakfast Q&A transcript (amended in places to improve readability only)

7 August 2018

Tushar Morzaria, Group Finance Director

We reiterated our returns objectives for 2019 and 2020, and hopefully you should hear from the tone of the meetings, or the comments that we're making in our scripted notes, that our confidence around these as 2018 has progressed is increasing. So, that's point number one.

Point number two, impairments; they are obviously quite low in H1, and I would expect impairments in H2 to be higher. It's always hard to be completely absolute about this. Obviously it will be subject to any changes in macroeconomic forecasts which we tend to look at on each quarter. So, if economic forecasts improve, then impairments will be, on a like for like basis, lower. If they deteriorate, IFRS 9 will pick up that deterioration quicker. But we also get a seasonal effect with more activity, particularly in the consumer finance space in the cards business as revolving activity tends to increase, so you'd expect to see a natural pick-up in impairments in the second-half.

Having said that, I would say that perhaps what's more interesting to you folks is when we look at credit conditions, both in the US and in the UK, across consumer and corporate, it continues to be benign, as it has been for some time now, and continues to stay where it is. Whether it's UK delinquencies, or even US delinquencies, they've ticked down sequentially, quarter on quarter, and there are no signs of imminent stress that we're picking up in all the data that we look at.

On guidance, we talked about noting lower volatility in July. Just to remind people, it was a comment on the sector rather than Barclays specifics, so really just to remind folks that the second-half tends to be seasonally lower income levels than the first-half, and in any typical year and July tends to be a bit of a quieter month. And we've got July 4th weekend, so that makes it into a relatively quiet week, and summer vacation season gets going towards the end of July. And on top of that, asset price movements were a little bit lower and that tends to be well-correlated to income levels. But that was very much a sector comment, nothing specific for Barclays that I would call out. And, of course, too early to guide on Q3, because obviously we don't know what August is going to look like yet. But September tends to be a very important month in the quarter anyway.

Moving on, more on income; we also talked about NIM guidance for our UK bank, which I think most people understood where we were going there. But just to reiterate, I did give guidance on income levels in the second-half, and I said in my scripted comments, very deliberately, that I was comfortable with market expectations for income. So, those comments were very deliberately made, and when I see that consensus increase, H2 versus H1, that feels about right. So hopefully that point landed well.

The final point I would make is on cost guidance. We hadn't previously given 2018 guidance at all, and we did on the call; we guided to around £13.9 billion of costs [excluding litigation and conduct], and that's subject to any currency moves. A couple of comments; one is just to remind people, that's an all-in cost guidance; there's no restructuring charges, costs to achieve or any other one-offs that we'd call out.

That's one of these disciplines that Jes has put into the company, where instructions are very clear; you pay for everything, I want you to invest and I want you to bring your absolute costs down. And that's really what you're seeing in our numbers. Costs will be lower in 2018 versus 2017, and be lower again in 2019 versus 2018. And that's after paying for all the restructuring, whether we're charging off real estate, whether we're changing our workforce, moving people around, all the costs for investments etc. And we'll talk more about where some of our investment programmes are, while at the same time delivering an absolute lower cost base.

Joe Dickerson, Jefferies

On the outlook comment in the investment bank. Should we look at last Q3 on last Q2 as a guide; is that what you are steering us to? Because it seems obvious that in the second-half it's a bit weaker. You called that out twice now, so what should we be looking at in terms of direction of magnitude?

Tushar Morzaria

I'm not really giving any guidance on Q3, so I think perhaps part of me wonders whether you've read too much into it. It's just a comment on July, which tends to be a quieter month in the year. So there's no other guidance on that.

I think in something like Q3, September is always a very important month. I don't have the crystal ball on what September will look like, and we've only just about begun August so it's really too early to guide. So there's no real comment on that for Q3, so don't read anything into comparisons for last year or any previous years. No real guidance.

Alastair Ryan, Bank of America Merrill Lynch

Just to scale your American retail ambitions, you're transatlantic and the card business is embedded, and it feels a little like you're expanding the boundaries of what you're going to be in America. Could you just pace that for us, and give us the boundaries as you see them today?

Tushar Morzaria

When you look at Barclays from one step back, if you like, our pedigree is in the UK, we're domiciled in the UK, and we obviously own one of the larger and more successful ring-fenced banks here. But in terms of real growth in the company, that's the United States for us.

We think that exhibits very good macro fundamentals, the US economy seems to continue to perform quite well, and probably above trend growth at the moment as a GDP matter, and unemployment levels, everything looks like it's trudging along well. So, both in wholesale banking, but, to your point, on consumer banking as well, we do see considerable growth.

At the moment, in consumer, we are quite simply a card operation, principally focused on partnership card programmes. Over a medium term, I think one of the most interesting things for us is to branch more into the consumer finance space. And that's a little bit of a "to be determined" on exactly what that is. The things that we've always wondered whether we should branch into, that are very adjacent thing to what we do in cards at the moment, could be other forms of consumer finance. Whether that's instalment lending, or whether it's personal loans. As you probably know, the Delaware bank where our cards business operates out of is a FDIC-insured Delaware bank. That's a standalone, ring-fenced bank in effect, it's been there for a long time now. It has a license to do that kind of stuff; it raises deposits, and has about $15 billion of deposits, it's very price-elastic, so we can easily attract in more deposits. It's remarkable how sensitive it is to pricing. And obviously we have securitisation programmes.

The other areas that we've thought about are even things like white-labelling, we only do partnership programmes and our own branded card, but we don't do white labelling of credit cards or store cards, so that's another area that could be interesting to us.

And then, finally, we could consider making the push into some form of digital-only checking account and personal banking facility.

I think all of those things are very interesting to us, but I would characterise it over the medium-term. This isn't something that's going to happen in a quarter or two, or even a year; it's very much, three to five-year progression into that.

I'd almost characterise it a bit like the US cards business where we first started out in 2006, and the first time it broke even was around 2010/2011, and now it's a bigger business than our UK business, certainly by receivables.

So think of it in a medium-term context, but the general point being that we feel much more geared towards the US market in terms of growth than we may be to the UK market. The UK market is still fantastic for us, we generate very high double-digit returns, and we continue to grow that business. But the above-trend growth, I think, will come from the US.

Ed Firth, KBW

Could I ask you just a slightly broader question about credit? You're not alone, in a sense you've given us a very consistently prudent message over the last two or three years, about credit and your appetite for credit. And yet your provisions are actually zero and you have write-backs now in the CIB. We've got interest rates going up in the UK, and so is there a concern that actually you've been too prudent on credit, particularly in the commercial area? And what sort of appetite have you got now to start lending a little bit more and starting to see that book starting to grow?

Tushar Morzaria

Yes we have been, less so the in the commercial area, probably more so in the consumer in the UK where there's been more concern. As many of you know, we took the decision at the time of the Brexit referendum, in the summer of 2016, to deprioritise unsecured credit growth in the UK.

It still feels to us that – even though you're absolutely right, it looks super-benign at the moment and there's nothing that would suggest that there's an imminent problem on the horizon – the risks are quite asymmetric to us in unsecured credit in the consumer side. And the reason for that is, unlike other forms of lending, once you've lent the money, you're cooked. There's nothing you can do about it, there's no sort of hedge you can put on, there's no risk transfer business, or any ability to unwind that risk. You're really beholden to what the loss given default is if there's a default. And on the back of my mind, for consumer credit, when consumers go through pain, given how much the regulatory landscape has changed, I also wonder in the back of my mind what new conduct issues may arise, and therefore I think a degree of prudence is warranted.

As we all know, if you do go into a credit cycle downturn, it's late vintage lending that always creates the most damage. Part of me actually is quite happy that we were perhaps a year or two early, or even more than that, because it's the last year or two years of lending that creates the vast amount of damage.

On the commercial side, it's probably more recently we're becoming more prudent. We're wary of certain sectors in the UK, the ones you all read about, retail, for example, obviously is quite challenged at the moment, but even hospitality and entertainment. Our Chief Risk Officer has rejected £700m of lending requests from our bankers in these sectors, this year. Of that, £300m are currently in receivership or in administration, so it has been a good call to be somewhat prudent. I know the loss given default would be a bit lower than that, but nonetheless, it shows that there are certain sector-specific issues that we need to be a little bit sensitive to. But, outside that, commercial lending is something that's a business we're much more comfortable with.

The other area we probably have never really ever got back into for probably a couple of decades now, is commercial real estate. That's an area that we've shied away from and continue to shy away from. And I think, again, looking at the risk reward, that feels a bit asymmetric.

On the flip-side, in the US we are much more comfortable with the extension of credit. You can see that in leverage lending, or leverage syndicated loans, and you can certainly see that in our growth ambitions we have for our card business in the US.

So I'd say, if you think of our management view, very cautious on unsecured lending in the UK, we still feel that's the right call. In some ways, we are reassured that nothing's gone wrong in the last two years, it's given us a lot of opportunity to get our book in as good a state as we can. We could still be wrong, but it still feels the risk reward is the right call for us. Very comfortable with commercial and corporate lending, but wary of certain sectors, and just be cautious around there. And much more constructive on extension of credit in the US, and again with paying due regard to our risk management on that. And you can see that in our card business there. We have sold low-FICO portfolios; you saw that last year, very glad we did that. Leveraged lending, we have an immense tight control over the approvals for any syndicated lending. There's committee after committee, so that's something we watch and monitor extremely closely. But comfortable proceeding on that business.

Claire Kane, Credit Suisse

Just a quick follow-up on US cards; I did ask on the call about the 10% net balance growth ambition, and I think Jes threw in "underlying" in the answer. So just to confirm that you're not tied to that 10% on a net basis, and you'll continue with these portfolio sales?

Tushar Morzaria

The thing about that, we're not a slave, if you like, to that 10%. It's not something we'll just absolutely strive to, like a cost target or something like that – we'd feel very uncomfortable missing the cost target. It's more of a scale of the ambition we have, taking into consideration the opportunity to serve the credit environment and everything. But we feel, given where we are, given the opportunities that we currently see, about a 10% growth feels very achievable for us.

The portfolio sale that you saw this time around actually wasn't for risk management purposes, it was just a low-returning book. It's actually a very prime book, if anything, possibly too prime. So that wasn't a risk management call. You get caught into these long-term contracts and if you mis-price these contracts, you can get stuck into a low-returning partnership for some time, and that was an example of one.

It's about the only one we really had, but we've exited that. So I wouldn't expect too many other portfolio sales. 70% of the book is locked up until 2022, and to the extent we do any other portfolio sales, it will probably be driven more by risk management, and probably off our own-branded portfolio rather than a partnership portfolio.

We'll have to keep a close eye, to the earlier question, although we feel the ambition to grow at 10%, we'll pay due attention and regard to the credit fundamentals and various other things like that. But at the moment, it feels like 10% is very achievable.

Raul Sinha, JPMorgan

The first question, if I look at your cost guidance, I'm just trying to understand how you see yourself getting to £13.9bn for the year. Because if I take the first-half cost run rate excluding the litigation and conduct, times two plus the bank levy, I get something which is quite well below the £13.9bn number. So, obviously that implies you're probably going to be stacking up investment, but then when you think about all the ring-fencing costs that would have been in the first-half of the year, they probably fall out as well. So how do we get to £13.9bn?

The second question is on the IB and the revenue line; obviously, it was a very good performance in the second quarter, particularly in Equities, but if you look at the Corporate lending and Transaction banking lines, obviously they're offsetting weakness there. And on the call you called out the fair value hedges impact on the Corporate lending line. I was wondering if the Transaction banking line is also impacted by those? What's the right sort of number for Transaction banking, because that looked quite weak?

And then, what is the further downward risk on those two lines as you re-allocate capital back into Markets, away from Corporate? I'm wondering if the strength we're seeing in Markets is actually being offset by the weakness in Corporate?

And then the last question is just a follow-up on the discussion on US cards and consumer. Essentially, if you look at the pre-provision profitability of the US business, that seems to have bottomed-out. It has been a steady decline since Q1 of 2017, and it sort of bottomed-out this quarter. So should we really start thinking about the pre-provision profit starting to grow from here?

Tushar Morzaria

So, starting off with costs; the first comment, which I know you guys have probably already got, but just to remind folks, don't ignore the currency effect. If you look where currency rates are even when we were on the call, slightly lower than the average for the first-half. And who knows where they'll be by the rest of the summer and beyond.

I think if you take the £6.7 billion of costs for the first-half, double it, and add a bank levy, consensus was at around £13.75bn or something. So these differences are £100 million here or there, and small FX rates do make a difference.

But I think the real gist of your question is where are we investing for the medium-term, and where are we putting those investments through? I would say that it broadly fits into three categories.

There are investments for new revenues, products and services. A good example would be in our UK bank, our investments around PSD2, Open Banking and the continued digitisation of many of our products and services. Another very exciting thing that's going on in the UK bank is positioning Barclays to be very attractive to certain customer segments, in somewhat a way that isn't so obvious. We're not going to re-brand ourselves as a millennial bank or a retirees bank, but if we see that you're the kind of customer that fits the profile of a millennial or a retiree or newly-married or a young family, something like that, we're working behind the scenes to ensure that the kinds of products and services that are made available to you, in a very seamless way, are very targeted to where you are in your life and your objectives that you may have in your life, and how we could best service those objectives.

So there's quite a lot of investment behind the scenes there. We can give you various examples in our US card business and our wholesale banking business of new products and services as well, which you're probably somewhat familiar with.

Bucket number two is really just modernising and keeping our core infrastructure as modern as we can. This is probably the less glamorous stuff from an outsider looking in, but it's very unglamorous if it goes wrong. So things like resilience and cyber defences, moving yourself to a more flexible distributed computing, the use of cloud, perhaps even going to a private cloud. When things go wrong, and you've seen this in some other institutions where they've had a bit of a snafu, it can be extraordinarily damaging to your business model.

And just because we may be modern and fit for purpose today doesn't mean we'll remain modern and fit for purpose tomorrow so there's a lot of, I think, very important investments going on there that are less obvious to the outside world.

The third bucket is efficiencies. One of the reasons why we're able to keep focusing on investments that are going to drive our top line is that we can create capacity to save money in the outer years. Jes gave a couple of examples of that; he talked about real estate, the move out of Manhattan into Whippany, and the move out of London into Glasgow here. These are tectonic, very significant real estate moves, all paid for in our cost numbers, all charged off in our cost numbers, including the people moves, the re-hiring, the re-training, the real estate development, construction, etc. It's all done within our cost objectives.

Now that will pay lots and lots of dividends; I can't remember the exact numbers, but the cost of square foot at Whippany versus Manhattan, it's literally a fraction, it's of that sort of order of magnitude. And that will come through in the out years, so that's just one example of all the efficiency metrics that we're going through.

I think we've had a lot of questions on this from both analysts as well as various other investors. I think what we'll do at some point in the future, we'll probably have Paul Compton, our Chief Operating Officer, who's the brains behind a lot of this, either join me on an earnings call, or perhaps at a conference or something like that, just to lift the lid on some of the gross savings that we'd have, and some of the investments that we're putting back.

And I think most people will be somewhat surprised at the scale of the numbers; at how large the savings are, and how large the investment programme is. And I give him a lot of credit for this, a lot of this is because we have a service company and so the ability, real estate is a great example, for him to be able to control the real estate footprint globally. He can control that everyone's going into the same type campuses and the same locations and get the benefits of that e.g. single fraud detection algorithms and departments, single client on-boarding, single payments protocols. All of these things, allows us to become very consistent in the way we do things, so better controlled, but also more efficient.

And the numbers are really quite exciting there. We think this is a genuine competitive edge for us, and it will play out over time. We're not really aware of any other very large banks doing it quite in this way, so we're quite excited about this, and more to come.

IB revenue and commercial lending and Transaction banking, I'll take each of the commercial lending and Transaction banking in turn. The commercial lending, it does get a little bit noisy because of the fair value of hedges that flow through. We've also done some risk transfer trades. Coming back to the earlier question, around our views on credit; one of the larger bankruptcies in recent times was Carillion. Carillion actually didn't cost us that much money in the end. The gross numbers were, I think, about £100m or something like that, but the net number was much, much smaller because we were hedged through a risk transfer trade buying first loss protection against a pool of corporate loans.

That's been a very effective risk management strategy for us. Of course, the cost of that hedge goes through our commercial lending line, so net-net, we're very, very pleased we've been hedging the book because it's actually paid out more than the cost of the hedge. But you don't get that every quarter and, of course, you pay for the hedge in the commercial lending line and sometimes the benefits come through the impairment line.

Having said that, the commercial lending line ought to come down because we have decreased the size of our loan book by rotating our risk weighted assets out. I would say that work is largely done, the good news is returns have improved, the redeployment of capital has been more productive in terms of returns. There's more work to do inside the commercial lending book, to continue just to re-strike corporate relationships to improve what's left there.

We like the scale of the commercial book, but we need to generate better returns. So that's more a medium-term project, maybe over the next four to six quarters you'll see that improvement come through.

Transaction banking, that's a business we like a lot, it's a business we want to prioritise a lot, and it's one way in which we can make commercial lending relationships more productive. So I wouldn't guide to a lowering of revenue objectives, or even some natural ebbing away of revenues there. There were some very minor perimeter switches across the UK bank, the boundary between small businesses and corporates, so that's slightly messy for those numbers for this quarter. But, looking through that, don't expect the transaction banking number to decline in any way.

We want to prioritise things like that to grow, actually, over time. Very excited about, for example, euro clearing; we've got our Irish bank operationalised for Brexit so UK multi-nationals that want to have a single bank, they can bank in the UK and in Europe with a no-branch infrastructure in Europe, which makes sense for UK clients. We should be the bank of choice for something like that, being a UK clearer already. Very excited about those kinds of opportunities and want to grow our Transaction banking line.

US cards and pre-provision profits; obviously, as we grow the business one of the things we're very mindful of is jaws. And so we've been, broadly-speaking, neutral jaws in our consumer cards and payments line, and that's been a good objective for us. And we held jaws neutral again in the second quarter. I don't want to give guidance on where pre-provision profits go exactly, but it's a growth area. It's an area we want to generate more profits in, so probably no trade secret to throw that out there.

James Invine, Societe Generale

I was just wondering if you could say a little bit more about your Markets business, please. You've just said you've re-allocated the capital from corporate loan book, are there still Non-Core risk weighted assets in there that need to be re-allocated? How much more hiring have you got left to do in that business? And I guess, really, the point I'm trying to get to is how far away is the Markets business from where you think it should be?

Tushar Morzaria

We're pretty pleased with the improvement in the Markets business year on year. A lot of that credit is down to Tim Throsby and the folks he's brought on board. For those of you that have been following the company for a while, you'll know this, but we've had multiple layers of senior management in our Corporate & Investment Bank leave the company for one reason and another and were replaced by just the people that were working for them.

It was affecting, unfortunately, our numbers, that's just a way of life. So the first senior hire we brought into the CIB was Tim Throsby, in the first quarter of 2017. And full credit to Tim, the easiest thing for him would have been to wait for his non-compete clauses to expire 12 months later and hire the people he's worked with in the past and is very comfortable with and knows he can work well together with.

But we pressed on him that that's not a timeline we're looking for, we need to move quicker than that, so he got his management team in place by the third quarter. And if you look at our Markets performance, it's really from the fourth quarter onwards that we've done a bit better.

I think there are three reasons why we're doing better; the first is human capital, it's very hard to put a number on that but it definitely has made a difference, particularly so in Equities. Tim has a strong equities pedigree, and Steve Dainton, who he hired from Credit Suisse, obviously has a deep equities pedigree, and between them it's made a difference.

The second thing is financial capital; obviously you know we've deployed more leverage, particularly into financing that has helped the Equities line, and had more capacity to deploy risk weighted assets to parts of our trading book. It doesn't always go to the trading book, we've had a record first half-year in debt capital markets, we've been involved in eight out of ten largest high-grade issues, and we're a top three debt house any way you measure it.

And so underwriting is a great business for us, it requires capital and there was a really good return stream made in there. So, it doesn't have to be in just traditional sales and trading, it can be in underwriting and distribution of securities as well.

And the third thing is technology; technology is probably more of a medium-term play, but we were, I would say, one of the better electronic houses back in the day, with our BARX foreign exchange platform, some of our cash equities trading platforms were pretty good. And through under-investment others caught up and, in some cases, have overtaken us. And that's definitely hurt us, and we're playing a bit of catch-up there.

So in terms of where we go from here, I'd say human capital, we are largely done. There will be, as you would normally expect, some hiring and some firing of bankers in the regular way of business. But senior management, the ones that run the business units, I'd say we're complete. Technology, I think, is a continuum; that probably never really stops, it's just continued investment to ensure we stay modern. And finally we have redeployed the capital within the CIB.

In terms of Non-Core, there are obviously some Non-Core assets in there. We don't call them out because they're not a significant impact to our numbers. So, if anything, if I did call it out, then our relative improvement will look a little bit better but it's just not a big drag. Then, of course, at the half-year last year, we closed down our Non-Core unit and so from now it's a proper like for like comparison anyway.

Have we fully realised our markets ambition? Probably not. I still think there are areas where we could improve, not just Markets. I'd say the areas, when I look at Barclays, where I still feel we could achieve more.

I still feel in rates, we could still do better, although we've done probably better than our competition in the last three quarters, it still feels as if we've got more to do there. So, optimistic about our potential if we get that completely right. I think equity capital markets, we've done really well in debt, really well in M&A, really well in equity sales and trading, financing, but primary markets in equities still feels we've got some further work to do there. That's a harder business for us to penetrate into, but if we get that right there's some upside. Commercial lending we've talked about, but it still feels we're not generating the returns we'd like in commercial lending. And probably the wealth business, as well, which we don't talk so much about because it's relatively small and modest, but I think the brand of Barclays, both internationally and in the UK, always surprises us how well it works as a wealth manager. And we haven't really done a good job of exploiting that and driving that forward. And I think you'll hear more of the Smart Invest programme now that that's bedded down and we're over our platform issues there. I think that's going to be an interesting opportunity for us to generate more fees on the UK side and in the high net worth, ultra-high net worth stakes in our international business. Obviously Jes has a very deep pedigree as an ultra-high net worth private banker, so I think, again, more medium-term, nothing in the next quarter or quarter after, but there are opportunities there.

So I still think, even though we've had a reasonably okay performance, there are certainly areas where we could strive to do better, realistically, and add to our overall results.

Robert Sage, Macquarie

I've got a quick question on dividends, where I see you've re-confirmed you're going for 6.5p. At the interim stage you paid 2.5p. I was wondering if that's the interim: final split we should expect going forwards, because I would have thought a more traditional one-third to two-thirds, or are you perhaps leaving scope over to pay more than six and a half pence for the full-year?

And my second and entirely unrelated question; I just noticed, looking at your mortgage growth, obviously the mortgage book is up and, within that, the buy-to-let is growing more than the overall portfolio. I was just wondering whether there's any change in appetite for doing buy-to-let, or whether that's just a function of the market in the first-half, or how you see the buy-to-let portfolio going forwards?

Tushar Morzaria

On dividend split, there's nothing subliminal in that split, it was more a rounding to be honest, and maybe we won't round next time. If you take a third of 6.5p, I think you get to some 2.167p, or something like that, but there's nothing subliminal in that. We fully intend to pay a 6.5p dividend.

On the mortgages, probably a little bit of the law of small numbers; we have a smaller buy-to-let portfolio than obviously our main stock of mortgages, so sometimes, just because of the law of small numbers, the growth relative percentage can sometimes be a bit skewy.

Where most of our mortgage production is in what I call the second mortgage space, not second lien mortgage, but those that have already had a mortgage coming out of a fixed rate term, or the expiring of some period, and looking to re-finance their existing mortgage. And there, our production is, if you look at our stock of mortgages in the UK, it's about 10%. The production for re-mortgages, is considerably higher than 10%, and we're one of the leaders in that space.

Buy-to-let is not a core, mainstream product for us. It's something that we do but it's really much at the more conservative end. So, for example, look at the loan-to-value, look at whether we lend to special purpose vehicles for those that want to run a portfolio, a portfolio landlord or something like that. It's something we haven't been very deeply involved in historically; it's a higher margin product but not something that we've prioritised.

So probably law of small numbers, really our stock mortgage product is the re-mortgage space. And that's worked very well for us. Look at current production in our overall flow mortgages, new mortgages that we add every quarter, and the returns are still very attractive, even though it's very competitive. Pricing is pretty robust, but the returns for us are still very competitive and very attractive.

Jason Napier, UBS

Firstly, coming back on the costs question. I guess one of the things that Jes said on the conference call was that it was sensible to invest while you're making an 11% RoTE. And I wondered the extent to which cyclically low bad debts, write-backs and so on, may be a factor in the costs? It certainly occurs to me that growth in expenses on a sequential basis, given a bunch of things that are now over or rolling out, is probably less operational leverage than I was expecting and that I think shareholders might expect. Just a couple of questions; one is to what extent might you have quite a lengthy backlog of good ideas in the next year or two that if revenues were to be better you could look to invest in?

And then secondly, when you manage the businesses, I have much stronger jaws in the consumer business going forward than you had in the past. Is that something that the business heads might envisage being given free reign to invest for a longer-term upside, or do shareholders get paid in the next couple of years on the basis of better revenues?

And then lastly, there's obviously been a lot of commentary in the press over the last few days about a no-deal Brexit and a number of industry bodies have made fairly clear pronouncements around the risks around derivatives, clearing settlements, legal status and so on. What is your advice on those issues? Is there any preparation on this you can make? What are the risks to the business and balance sheet in the event of no-deal?

Tushar Morzaria

On the capacity to invest and how that shape may look over the next year or two, particularly depending on where we are in the revenue environment, and the operational jaws that people could expect.

I think when you've gone through a massive restructuring, and we've certainly gone through a long, drawn out, meaningful restructuring, we no doubt will have therefore been distracted by that and underinvested in some areas that we would have preferred to, had we not had to deal with so much. So we do have some things that we really would like to invest in. I think now that we're free of the restructuring, we're able to use our discretion much more.

So if the revenue environment was to dip, we absolutely have operational leverage. It's less of a thing of flicking the on and off switch; you don't ever stop investment. I think now that we're more in a, if you like, regular company mentality, it's the speed dial; you either slow it down or you speed it up. If you have the capacity, if you're generating good returns, you should try and speed up some of the work you're doing so that you can get revenues switched on sooner rather than later.

Of course if revenues decline, our objective function is to generate a double-digit return through a cycle and at most points in a cycle and we have the operational flexibility on our cost line to be able to manage that when needed. But it's a slow down, speed up, rather than a turn on and off.

Positive jaws are important to us. We're not at our returns objective yet, so until we're at a double-digit return and are comfortably generating double digits, then I think there's a downward focus on cost. In absolute terms will still be quite a strong force in the company.

I think if we dream about the future and we're comfortably generating 11% returns or something like that, then the choice of whether you go to 12% or 13% or hang around at 11% is a very interesting choice. For us, it's the right thing to do on a five-year view, but that's probably for another year. At the moment, let's get to 10% and costs will be an important part of that.

But the good things is that as we get to next year and beyond, we can get to those return objectives while, we think, driving a meaningful investment programme that will put the company in really good footings for years two, three, four and five of our journey.

I think you'd expect our UK bank where it's already a very large-scale, large market position, you don't expect top line to be growing super-fast. It's much more driven by the macro environment and the UK operational improvements and positive draws through cost flexibility will be important, particularly as digital is an important part of that business.

Whereas, in more the wholesale and consumer banking in the US you can get positive jaws accompanied by a rising income environment if you invest properly and the market's there for you. It won't always be the case, depending on where you are in the cycle. Although we want positive jaws everywhere, there are different characteristics of those positive jaws; some with a flat revenue environment or slightly up, and some with a sharper increase in revenues.

No-deal Brexit – in terms of advice for the industry, our view unfortunately all along was we should have to plan for a no-deal Brexit. It's the only planning assumption we could make and therefore when that will be up and ready, assuming a no-deal, I think we've been very public at urging anyone who will listen to us that a no-deal is not a great outcome for the sector, let alone Barclays, and it's a levelling playing field.

In fact, anything at the margin we might be less impacted simply because our Irish bank is up and operational and we have a ring-fence bank in Ireland that is there with its independent borders, fully licenced operations etc. rather than a greenfield site which is a much more complicated thing to do.

But it won't be good for the sector and industry and it won't be good for European banks, it won't be good for US banks, and it won't be good for Swiss banks. But it's no good for anybody. There's no winner in all of this, so I'd urge policymakers to just be sensible around these things. I think, certainly on the UK side, we're getting more of an audience. They've got to be a little bit careful.

In Europe obviously we have less of a voice, just given that we are domiciled in the UK, but I'm part of the European banking CFO network and we're all locked arms in trying to remind policymakers what we think is the right approach for the whole European banking landscape, including Swiss banks and British banks. We get an audience and people listen to us and we urge them to try and do the right thing, but I think all of us, certainly us, we're planning on a complete breakdown and plan to be ready for that.

Jason Napier

Just to confirm, does that include repapering…?

Tushar Morzaria

If necessary, yes.

Jason Napier

Is that underway at present, or…?

Tushar Morzaria

Well, again, I don't want to be too open about this but, yes, we're ready to mobilise whatever plans are required assuming a no-deal. So if that meant repapering because there's no grandfathering of contracts, yes. It would be a fiasco, it's no good for anybody, but we can't not be ready to do something like that. You can never take that risk.

Jenny Cook, Mediobanca

Two questions. The first one is more of a request, really. Can we get a sense of a split of the legacy funding costs so we can get a sense of how the underlying has moved?

Secondly, I thought the comments around setting up the three new campuses were really interesting; 5,000 people in Glasgow, 1,500 on Jersey. If I assume another 1,500 elsewhere, that gets to about 10% of your staff base. I assume that would be relocations more than net hires and would be from high value locations to these locations. Can we get a sense of the timeline around that, and also would that imply about 10% of your prime value real estate will free up over the next year or two?

Tushar Morzaria

Yes, so we'll lodge your request on giving a little bit more detail on funding costs. I'm hoping that it disappears, so I won't have to tell you about it if we retire those instruments or they're redeemed, so maybe we'll beat you to it.

On the real estate, yes, this is something I think we will talk a little bit more on when we ask Paul Compton, our Chief Operating Officer, to address a more public audience. Yes, these are big numbers and you didn't mention Pune as well which is of the same scale, and that's our tech centre in India just outside Mumbai. So the whole idea is absolutely we feel we have way too much expensive real estate in London and in Manhattan. We had three large buildings just in Canary Wharf; the building you're in now, 5 North Colonnade where our investment bank is, and 10 South Colonnade the building opposite that. We've exited 10 South Colonnade.

The long-term play here is to try and condense into a single building in Canary Wharf and to have everybody else in other locations. We have a large location in Radbroke, just outside Manchester, which is where the UK bank has been for a number of years, and Glasgow will be another marquee site. It's actually already there but it's going to be a very modern, very snazzy piece of real estate.

Whippany is the Glasgow equivalent of Manhattan. We don't really have anything outside Manhattan. We've got two big buildings in Manhattan; 745 Seventh Avenue which is the old Lehman building, that's our building forever so to speak, just by Times Square, and then we have another building on Sixth Avenue which we'll be vacating and that's the move to Whippany, New Jersey.

Whippany, New Jersey, could get even bigger to be honest. It's got the potential to have three buildings there. It's our own estate, so it's got the potential. It's just one building, but it could grow into three buildings and, again, very modern, very exciting place to work.

You'll be surprised at the number of people that are prepared to move, it always surprises us on the upside, even to as far away as Glasgow. Certainly for New Jersey, anybody who's travelling in from that side of New York City it's not a difficult move. Obviously if you're in Long Island or coming in from upstate New York or Connecticut it's a little bit more awkward, but you'd be surprised how many people are prepared to move.

Pune of course is a very different thing. Obviously that's in India and we have an investment banking business in India that's relatively small compared to the scale of the Pune as a technology site, and that is already there, we're just continuing to invest in it.

So I think these are the things that Paul will talk more about, but that's quite an exciting and very substantial real estate rotation that's all included in our numbers and will certainly deal immense cost benefits, as well as workflow benefits over the years to come.

Guy Stebbings, Exane BNP Paribas

The first question is on intangibles and investment. Intangibles didn't move an awful lot in the first half, certainly less than some of your peers. Would you see that as an example of perhaps investing ahead of some others and therefore the amortisation of that coming through at a similar pace to year end?

The second question on IFRS 9 and stress testing; you've now submitted to the PRA and I appreciate there's very little you can probably say in terms of that submission, but versus before having done that work there's concern around pro cyclicality of IFRS9. Is it more or less, having done some of that analysis?

Tushar Morzaria

On intangibles I haven't, to be honest, probably spent more time benchmarking our intangibles relative to other institutions so it's hard for me to comment on what others are doing. For ourselves there's nothing particular I'd call out. Again, consistency of the way which we capitalise and amortise intangibles, through the service company I think makes life very straightforward for us so it's a very consistent process. Of course although we'd much prefer to manage the company on a cash basis, unless it's just a timing and accounting, and we'd like to set budgets on a cash basis and not get people too excited about the accounting.

Obviously our cost targets include the accounting effects of capitalisation and amortisation so we know what to expect and know what investment horizon and what amortisation and capitalisation goes on. It's all included in our numbers.

Guy Stebbings

Is the first half unusual in any way? Should we expect a pickup in investment spend in the second half?

Tushar Morzaria

Not really, no. It ebbs and flows, but nothing I'd call out that's significant.

IFRS 9 and stress testing, yes, I think one thing I'll say is that a lot of people say "well, this is just the same stress test as last year". In some ways it is because the end-point is the same level of house price changes and GDP and whatever, but we start from a better position in terms of a more healthy economy. So therefore it's actually more of a stress than it was this time last year and sometimes people can forget that. So you would expect actually, I would think, drawdowns to be a bit higher than they would've been like-for-like, simply because of the distance to travel. Now, on the flipside, at least for us, we have more capital than we had at the last stress test, we're a smaller bank, a less riskier bank, so you've got reasonable offsets there.

Yes, IFRS 9 is pro-cyclical. Certainly in these stresses the numbers can get fairly significant very quickly. I think the most interesting thing here, though, and I think you as a community will be quite important in this, is there will by design be a number of false positives that IFRS 9 will create. So at what point do people try and ignore the false positives and look at cash losses and perhaps coverage ratios over delinquent assets rather than just looking at the impairment build which may well reverse.

In a lot of the scenarios themselves, particularly the Bank of England test, you see a big macro deterioration followed by a relatively rapid recovery. You can imagine how you get a big impairment charge and an enormous release in consecutive years and I think you as a community, as well as investors, are going to have to think about how we think of that. Do we just go to pre-provision profits? Do we just look at pre-provision less charge-offs? How do you guys think about that? Because you will get a lot of false positives and I think that's a journey we're all going to have to go on, both as management, as analysts and as investors. Yes, we'll all just have to navigate through that carefully.

I think the other thing that will make this a little bit more complicated of course is all of our models are just by design different unfortunately, so the extent at which that pro-cyclicality is manifested will be different by different banks. And again, how do you as an analyst community, when you're trying to compare banks, rank them up?

For example, you've probably gone through already all the bank's transition documents and you may have seen, certainly we've seen, that we tend to show a lot of balances in stage two relative to our peers. Now, does that mean we've got a riskier business? Possibly. Could it be our models are more conservative? Possibly.

So this will all take a little bit of time to work out and I suspect over time we'll all converge to a more consistent framework, but that journey's going to be a little bit bumpy I suspect and then you guys will be quite important I think in helping us all get to the right place over time.

Ian Gordon, Investec

Could I just clarify your previous answer to Raul's question? Is the incremental investment spend in H2 skewed towards UK rather than international?

Tushar Morzaria

It will be spread across both, there was no bias.

Ian Gordon

Secondly, this is a question you've had many times, but just on capital, previously you've indicated a willingness to look at capital return or capital tinkering ahead of reaching 13%. Clearly you're there arguably ahead of time. I know you've guided that capital build is obviously slower seasonally in the second half, but given where we are, does that reaffirm your increased flexibility to do things perhaps sooner than you otherwise would have?

And last question, over the last day or two we've seen entities like Apple, like Facebook more overtly try to meddle in the US mid-terms as part of their broader campaign against the first amendment. How far do these people have to go before you feel uncomfortable having relations with them?

Tushar Morzaria

Capital flexibility – hopefully you've seen us over the last number of years try and be judicious in balancing spending capital for good purposes while at the same time prioritising capital accretion.

We have more flexibility than we may have had and there are parts of our liability structure that we'd still rather not have and we could spend some money to deal with that, which we've been doing steadily in the past, but we have a bit more flexibility now than perhaps we have done.

But at the same time, and the other thing that's important to us is, as we complete the journey of just capital accretion because we have to get to a certain capital objective, thinking about the best way in which we can start getting capital back to investors and obviously our common dividend is the first step in that. And I think maybe at the full year and beyond we'll talk about other ideas and objectives we set for ourselves.

I try and not get involved in political and societal questions so, look, I think that if there's three things in Barclays that I don't think we'll ever forget, no matter how many generations of people will be here, one happened probably nearly three decades ago and we still haven't forgotten, and that's commercial real estate. In the early 90s Barclays had a rescue rights issue and therefore has never got back into commercial real estate. The second one is leverage, we had a regulator impose capital raise because we were offside on leverage. I don't think that will ever be forgotten in this company so leverage is another scar that runs very, very deep here.

And the third one and really this is the point of your question is conduct. Barclays has been actually very, very good credit and market risk managers, but had a real problem for itself in conduct. And some conduct losses were just enormous. PPI alone has cost us more than the entire capital base of the UK bank.

So go back to the tech companies and all that, I just think that we'll be very, very wary of ever getting ourselves into anything like those conduct situations ever again. And even if it's a second derivative just by being associated with someone who themselves may be having what we could see as real conduct problems, the collateral fallout for that we want nothing to do with.

So it's not to say we don't like Facebook and whoever else - we'll do business with them - but they may be going through what we went through in the last decade and we'll be careful that we don't get any fallout from that. Don't ever understate how those three things are tattooed on our forehead and so we'll do everything we can to avoid those mistakes again.

Kian Abouhossein, JPMorgan

Can you just touch a little bit on credit versus macro in sales & trading and the environment for credit? And around QE impact, you mentioned you're still very active in leveraged finance, how do you see the trends in that segment considering the extremely tight spread volumes etc.? And then in that context maybe macro because clearly there has been a lot of focus on the equity business which was great, but how are you developing your macro business and rates and FX?

Tushar Morzaria

The thing we're always watchful of is I guess the turn in the credit cycle away from not just traditional credit but even in corporate credit and sales and trading underwriting. So again I couldn't overstate to you how much focus we have on cautiousness around leverage lending commitment and deploying capital in that corporate credit and the velocity of that capital.

On the sales and trading side it's very much an adjunct of our primary calendar. In an odd kind of way if credit was to widen generally what you'd get is bid offer spreads to widen alongside it; that's generally pretty good and generally flows would pick up. So if there was a selloff in credit it would probably impact our capital markets business but I suspect would be quite beneficial to sales and trading. And I think the head of our credit trading business is generally quite bearish on credit and has a relatively defensive stance. So it might be wrong in which case we may leave a bit of money on the table but that's how he views the world. The risks are skewed to the downside better to leave a bit of money on the table because if it turns you want to be positioned for that so that could be quite a big swing.

Macro on the flipside has been the one asset class which has been in many ways the toughest of recent times where spreads have just collapsed to virtually nothing, whether it's in foreign exchange or even in the rate market. And generally volatility has been very, very benign and there's no primary calendar around this stuff in the same way as you get in corporate credit or in equities. So you're much more geared towards institutional type business.

Having said that, that won't last forever. I remember 2005, 2006 and start of 2007 was a disastrous year for rates trading desks, and yet late 2008 and 2009 were probably the two best years they've ever had so things can switch around quite quickly. And when we've had a bit of price action, for example, in the second quarter where we had Italy have a bit of a wobble and the BTP had a bit of a wobble, that was a very good trading environment for us. Again spreads widened, flows increased, and our ability to monetise those flows was very good.

So I think for us it's somewhat about diversification, macro won't stay as quiet as it has done in recent times, and corporate credit, particularly underwriting, may not be as buoyant as it has in recent times. So you've got to have that diversification at different points in the cycle you think capture and monetise different types of flow, but still keep your returns high and still keep your income going in the right direction.

Kian Abbouhossein

And just on leverage transactions do you hedge the inventory positions through macro hedges or is it just sitting there?

Tushar Morzaria

Both, we can do macro hedges. With the basis risk you've got to be a little bit careful, you can either do puts or something like that but you've got to be very careful with the basis between the index and the names, they don't always perform very well. You've got to be careful with leverage levels, flex, the ability to distribute within flex levels and covenants a whole heap of things that you could do to make yourself comfortable with the underwriting commitment.

Generally speaking, the hedge is almost in addition to everything else, you would never do an underwriting commitment just because you think you can sell some features. That's usually asking for trouble, the basis is too wide on single names versus index.

David Lock, Deutsche Bank

In the payments business which we can't really see within the one line that you report, but just any colour you could give on two areas; the first one is what is going on in terms of margins in the UK? Obviously there are a lot of new players coming in, and just wondered if you can give us your thoughts on whether you're seeing that as a real threat to your business here in the UK?

And then, secondly, I think in previous years you've talked about Europe as being the potential area of expansion, particularly after the introduction of PSD2. I just wondered if you could give us an update on where you are on that process and if there is an opportunity that you're looking to expand.

Tushar Morzaria

On margins in the UK, fintech is obviously prioritising this space and they're making some inroads. We talked about, a little while ago, we had three major technology platform rollouts, two of which went really well and one which didn't work so well. The ring-fencing of our UK bank that went through and went well, while stockbrokers at the time didn't work as well as we would have liked.

And the third one which we don't really talk so much about was the rollout of our new merchant acquiring platform, which in some ways was perhaps the most profound of the three because no-one knew we were really doing it. And given, broadly speaking, one in three retailers use our merchant acquiring, if that didn't work we would still have a public holiday in the UK. The reason why we rolled that out, again, is to do with keeping a modern and flexible infrastructure, but importantly in this case allows us to develop further products and services, much more differential pricing etc. In a way to stay ahead of the fintech curve that's looking to take pieces of the profit pie here.

So it's a fierce environment everyone wants a piece of the action and we're doing very well, we're obviously the large incumbent and defending ourselves well. The one area that we haven't seen much inroad in and is a much harder thing to crack from anyone else is business-to-business. Business-to-consumer is glitzy, with a lot of clever payment apps and various things, but the big bucks are in business-to-business, and there we have a good position and it's a much harder thing to dislodge us from or even make any inroads against.

Acquiring in Europe, no big plans at the moment, but generally speaking whether it's acquiring in Europe payment gateways and the same even in the US – and if anything the US is perhaps a little bit more interesting to use in terms of deploying our payment gateways. Again it sits alongside, if you look at our strategic positioning in the US, in consumer, relatively small but meaningful. We're really, really good at this in the UK, can we be a disruptor or an enabler. The UK market is far more advanced than the US market in terms of some of this technology. Obviously the US is a larger country with a lot more State banking laws and things like that that make it a little bit harder to navigate, but could we target those particular parts of the payment cycle there and make some inroads. But probably again medium-term, nothing in the near term is going to make any difference to these things but we're seriously considering sowing the seeds of ideas that may pay dividends in the outer years.

Chris Cant, Autonomous

It's all quite forward-looking this morning, talking about three to five year horizons, and interesting to hear you talking about a debate in future between sticking at 11% RoTE or potentially heading up beyond that into the teens. One of the things you have not talked about in the past is the impact of Basel IV in your targets, and obviously you've set your 9% and 10% RoTE targets for 2019 and 2020 explicitly not factoring anything for Basel IV.

You've been asked the question before and I think you declined to answer it, but what impact are you factoring in now because obviously you're getting that much closer to the time you will be having to disclose fully loaded Basel IV ratios, I suppose. And how should we think about that? If you are getting to that point where you're saying 11% RoTE might go to 12%/13%, doesn't Basel IV then pull you back the other direction before you get the opportunity to have that internal debate about potentially investing in the upside.

Tushar Morzaria

It's a fair question and in terms other capital things on the horizon that you've got to plan for, you've got CRR2 that'll come in before CRR3. I think Basel IV will be more CRR3. And of course you've got the Fundamental Review of the Trading Book and Standard Approach to Credit Risk which are somewhat offsetting affects for us. FRTB will increase capital and SACR will give us a benefit.

Your knowledge around this is as good as mine in terms of when the legal process will complete, but feels like sometime in the earlier part of 2019 for CRR2, possibly applicable around about 2022, maybe disclosing in 2021.

CRR3 let's assume that gets enacted the following year which will be relatively fast given how the cycle has been in the past so maybe that gets applied in 2023. That still feels a little bit towards the edge of the outer years of the planning horizon. We have our own views on what that may be for us. It's a little bit harder now because obviously the UK's position and how they'll adopt the CRR post-Brexit, I've got no idea what to make of that. We can only assume that it will be adopted as may be enacted; it may or may not change.

I think as we get closer to that legislative process and some clarity on timing and specifics, we will absolutely factor in disclosure where appropriate. We have disclosed FRTB in the past; it shows how long these things take. I think we may have disclosed FRTB back in 2015, or maybe 2016, but it looks like it may not apply until 2022. So there seems to be quite a long gestation period for these things.

But it's a very fair question and I think as we get, if you like, a more tangible timeframe and some more specificity on how the rules operate we'll absolutely do our best to disclose it and let people know how we're thinking about it.

What I would say is that, and I'm sure this is true of all the other banks, many of them are already beyond their restructuring point and generating quite decent organic earnings generation, and depending on the capital quantum that we're talking about, it feels something that's quite manageable over that timeframe.

The other thing I'll say is banks have got very adept because there have been so many changes to the rules, very adept at managing their business models to, if you like, make the most of those rule changes. So take FRTB, this is just a bunch of maths, and investment bankers are brilliant at this kind of stuff once you know what the rules set are. And people can adapt their business models accordingly to ensure that the incentives that the FRTB rules will create they optimise. And I think that's probably true of many of the other aspects of capital rules that may change.

So again I'd just remind people banks are very good at adapting to the future. Even on IFRS 9, some of the numbers that were [forecasted in the market before implementation] were quite substantial, and I think most people wouldn't have expected [the actual impact] to be where it was on day one application.

Chris Cant

It's helpful, and I guess I'm thinking of some of your peers. The likes of RBS have been giving commentary for a while even in quite rough and ready terms to give people a way to think about the potential impact. And I guess if the debate does start looking out three to five years you're going to keep getting that question so hopefully you can give us an answer on this.

Tushar Morzaria

Okay. Thanks again, everybody.

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