Barclays PLC Q3 2018 Results

24 October 2018

Results call Q&A transcript (amended in places to improve readability only)

Joseph Dickerson, Jefferies

First of all it seems to me like the regulatory approval to redeem the USD prefs is actually quite a significant development, particularly ahead of the stress test and God only knows what will happen around Brexit, so that seems quite positive, would you agree with that? Next year, given that you can redeem this instrument, and given that for the first nine months of this year we’re at something like 11% RoTE, should we see any prospect of upping your RoTE targets? Any colour you have there would be appreciated. Thanks.

Jes Staley, Group Chief Executive Officer

I’ll do the first question and pass the second one to Tushar. I think it is significant that we got the PRA approval in front of the stress test and in front of issues that may arise from Brexit, so you’re right with that.

Tushar Morzaria, Group Finance Director

I totally agree with Jes, and just to add a little bit to it, it’s quite a significant quantum of capital as well; if you add the AT1s and the dollar prefs together, it’s almost £1 billion, or 33 basis points of capital, and we’re very pleased. Obviously we think we’ve got a very strong capital position and, more importantly, a strong capital trajectory and it’s important that our regulators share that view as well, to allow us to take these earnings accretive actions in advance of both the ECB and, indeed, the PRA stress test results.

Your second question, around upside to RoTE targets, we’ve been asked this question several times in the past. There are things that go in our favour and things that…

Joseph Dickerson

But the RoTE keeps getting better, which is why I asked the question.

Tushar Morzaria

Obviously we’ve had above trend performance, if you like, or above target performance for some time now. I think the difficulty, when you put yourself in management’s position, when you look at a year like next year, it’s a little bit harder to know what the wider economy will look like next year. We feel very confident, with a diversified business model, that we should be able to cope with most eventualities and feel very comfortable with our targets.
We did say it was greater than 9%, so we haven’t capped how good it will get, but let’s see how next year turns out. And if we’re doing better than those targets, obviously it will be apparent early on in the year.

Jes Staley

I’d just add that this time last year, the gap between our performance and that target 9% was about 350 basis points, and the question was, how do you bridge that gap? We’re in a fortunate position now that there is no gap, in fact we’re running higher than 9%, and the question is how do we sustain the performance that we’ve managed in the last nine months? And that’s obviously a much more comfortable place to be, but, as Tushar said, we’ve given ourselves room for the upside.

Claire Kane, Credit Suisse

Firstly, on the UK margin performance, I guess there is good NII progression quarter on quarter, good mortgage growth – do you think the NIM is progressing slightly better than you previously thought? I think you said you might exit the year at the lower end of the range, 320, rather than maybe below, so could you talk us through how that’s progressed, given the rate hike you’ve had in the quarter?

My second question is a bit of a technical one, on the £165m of lower legacy funding. Should we assume £100m of that is in the NCI line and then £65m in head office income? So the £65m is already in your £360m annualised legacy funding costs?

Tushar Morzaria

Let me take the second one first and I’ll come back to margins. The second one is quite straightforward; it’s all in the NCI line and it’s really the after-tax effect of not having to pay the preference share coupons from the first quarter next year onwards on an annualised basis, and it’s all in the NCI line, if that helps with getting the geography right in your models.

Back to UK margins; it’s an interesting space, we’re pleased that we kept margins broadly flat in the third quarter. When you look at what’s going on at Barclays there, we are prioritising secured lending relative to unsecured lending, so you would expect a natural dilution of that margin as we prioritise lower margin but lower risk business, and that’s the position we’ve taken for the last couple of years.

The mortgage market is very competitive, and we have seen pricing respond to that competition, so I would say that there’s downward pressure on asset margins. On the flip-side, of course, there was the rate rise in August and we passed on less of that rate rise than we did previously. If you put all that together, we’re pleased we held margin flat.

When we look prospectively, we are keen on prioritising secured lending relative to unsecured lending, so if nothing else, you would expect to see that sort of dilution of reported NIM, but we feel good with that, it’s a good risk-adjusted business. We pay careful attention to ensuring that even though there’s downward pressure on asset margins, that we do it at returns levels that are sensible for us, and we certainly won’t be doing business where returns levels aren’t justified on a returns basis.

And the other thing is that we are beginning to see some more competition on the liabilities side. Obviously you’ve seen one of our US competitors enter the market in the UK, that’s got a lot of attention. That, in and of itself, is not so much of a big deal, our liability balances are up one and a half billion in the quarter. But I think away from that, you’re seeing some of the larger lenders pricing up liabilities.

It’s an interesting space for us because our loan to deposit ratio is below 100%, so we’re probably less geared towards having to lock up that funding in the same way as other competitors may be, but we’ll see how that plays out. Hopefully that gives you a bit more colour of what’s going on behind the scenes.
Jes Staley

Hopefully the shareholders appreciate that we’re being prudent around credit in in the UK, and we’ve been that way really since the referendum vote.

Andy Coombs, Citi

Firstly, I just wanted to look at the loan loss provisions, the IFRS 9 adjustments you’ve taken on revised macroeconomic forecasts; I think this is the second adjustment you’ve made to your models in three quarters - I think there was a US model adjustment in Q1 as well. I just want to get a feel – it’s very difficult for us, looking at the IFRS 9 adjustments from outside in. Your arrears in the UK are flat and your arrears in the US are actually up, so are there any other hidden gems that you can pull out using IFRS 9 accounting? Or do you think the benefits from this are now largely complete?

My second question would be around AT1s. I think the redemption of the retail prefs had been well-flagged, so I’m more interested in the $2bn AT1 redemption the bank is doing in Q4. This comes after two and a half billion of issuance in Q3, so I just want to see how you think about the AT1 bucket going forward.

I think you’ve got almost £11bn, so you’re running quite a big excess versus an RWA base. However, I’d argue your binding constraint is your leverage ratio under stress which, as you point out, is running at 4.9% spot versus a 3.8% hurdle - but is that how you think about the AT1 to a greater extent? Thank you.

Tushar Morzaria

I think these are probably both ones for me, and Jes may want to add some comments in afterwards. Let me start with the loan loss provision. You’re correct in identifying that we have had two revisions to our economic forecasts, and this is the second one. It’s really just a function of where publishing economists see the environment. In the first revision that we made, earlier on in the year, that was mostly around house prices in the US, and in the second one, it’s really more around unemployment levels.

To help you think through what the effect of these would be, I think in the UK, absent any improvement, or indeed deterioration, in underlying credit conditions, I would expect the impairment charge to be in the low £200m’s, but I don’t have a call on what the economy will be forecasted to be, so that’s absent any provisions there.

The fourth quarter is usually a seasonally high impairment quarter for the Corporate and Investment Bank, principally driven by single name actions. When companies get into difficulties, they tend to end up breaching their covenants and various other measures, and that’s usually around the end of the calendar year. That’s not a forecast to say that we expect to see a lot of single name delinquencies, but were we to, they usually manifest themselves in the fourth quarter of the year. You probably saw that, certainly last year, and maybe in years before as well.

In CC&P, it’s a little bit more complicated because in the third quarter last year we also had a one-off charge of £168m from the sale of the low-risk quality portion of the book that we exited last year. If you ignore that, the charge this year is about £145m less, year on year; that probably gives you a good sense of the effect of revising these economic forecasts.

So when you look at the fourth quarter, that’s probably a good jumping-off point to add back that £145m. Of course, the book has grown since this time last year, so you can make your own views on what the growth of the book is worth, then plus or minus your own view on the economy as you see it in the fourth quarter.
You talked about delinquencies ticking up in the US, they’re flat in the UK, as you pointed out, so it’s not something that concerns us too much. These are small increases on relatively small levels. Certainly for our Cards business, we are very consistent with the rest of the US cards industry. So hopefully, for you and some others, that’s some helpful colour.

Your second question on AT1; if the gist of your question is are we issuing AT1s simply to solve a leverage ratio requirement, that’s not correct. We look at the stack of capital from CET1 all the way through to Tier One and MREL and look to the most optimal ways of filling that stack up. We obviously have a minimum requirement of AT1, and we’re reasonably above that.

AT1 is a little bit more complicated as well, because you don’t want to be caught out if you’re running too tight, to not participate in the ability to re-finance or call those AT1s as they come due for call dates. So I think you’d expect us to run a little bit above minimum requirements, and that’s what we are doing. But, essentially, we’re just driven by economics and how we can best optimise the full capital stack and staying above minimum requirements where that’s appropriate. But nothing more to it than that, really.

Andy Coombs

I guess my broader question would be that you’ve issued two and a half, you’re redeeming two, is that the trend we should expect going forward, that you’re managing the AT1 around the current level? It’s not that we should expect a number of redemptions of the absolute balance?

Tushar Morzaria

I don’t want to guide too much on that; as I say, we’ll be somewhat driven by pricing. Let me give you a good example; if you look at our most recent issue of AT1 versus the deals we’re retiring, there’s a 200-basis point to mid-swaps improvement, so it’s very economically rational for us to call these ones. It may well be when we get to this time next year and another block of calls are available, I don’t know what those re-financing spreads will be, and I don’t know where the market will be, or the foreign exchange rate.

I’d like to have that optionality, so I don’t want to guide too much because it will be driven by the facts and circumstances at the time.

Robin Down, HSBC

Firstly, I think Jes mentioned earlier on the media call the idea of doing buybacks in 2019. I just wonder if you could give us a bit more colour around what he was saying and what your intentions are there? Secondly, you gave us some guidance on Head Office revenue numbers, but we’ve got minus £90m in the quarter coming from legacy instruments, but I’m guessing that the bulk of that is coming from the RCI, so when we look at 2019, should we be thinking about it as being minus £90m for the first couple of quarters, and then dropping in Q3 and Q4? And I just wondered if you could also give us a bit more colour around where you think the hedge number might be in 2019 as well?

Jes Staley

Vis-à-vis buy-backs, I’d just say as we look back on 2018 thus far, the first quarter was marked by a £2bn payment to the US Justice Department and to PPI claims. Since that time, we’ve continued with more than doubling our dividend versus last year, we’ll essentially pay roughly £1.1bn in dividends for 2018.

As Tushar mentioned, the capital equivalent of calling the preferred shares is about £700m, so we returned to shareholders, in one form or another, roughly £1.8bn this year. As we look to 2019, where we have clear air, we don’t see any significant litigation issues in front of us, we should have the ability to
return even more capital to shareholders. Clearly, with the stock at this level, we would discuss a stock buy-back programme with our board and our regulators at the appropriate time.

We’re not going to give any more guidance on that until the year-end results, where we will talk about our capital plan as approved by our board and discussed with our regulators.

Tushar Morzaria

I’ll cover the couple of questions on Head Office. In terms of legacy funding costs, you’re right, a decent chunk of that is coming from the reserve capital instruments, the RCIs. Now, obviously we’ll see what the facts and circumstances are, but they do come available for a call in the middle of next year. I guess you’d expect us to behave economically and rationally, so were we to call them then your assumptions are fair to expect. As I called out in my scripted comments, about two-thirds of that £90m will drop out if we were to call the RCIs.

The hedge accounting unwind is tracking to about £200m this year. I haven’t given specific guidance for next year, but it will be smaller and then, beyond that, it really falls away as a material item. We probably won’t even be talking about it in two years’ time, I imagine. So probably next year is the only time you’ll see it, smaller than £200m, but I haven’t given any more guidance on that at this stage. I’ll maybe say more at the full-year, when we have greater visibility on it.

Guy Stebbings, Exane BNP Paribas

Firstly, can I just briefly come back to US card asset quality and the pick-up in arrears? I appreciate the pick-up is still fairly small, and off a low base, and the industry itself has seen a slight pick-up, but by direction, at least, are you becoming at all concerned by this trend, given obviously it’s a key growth area for you? Are we still a long way from NPL formation levels that would lead you to question your strategy here? Are you surprised at all the trends appear to be worse in your US book than your UK book, for instance?

The second question was just on structural hedge; I see the NII contribution is £600m year to date, I was just wondering if you were able to give us the notional balance, because I don’t think we’ve had that for a while, and that would just be helpful in terms of thinking about the contribution going forward.

Tushar Morzaria

Yes, sure. So on the US card arrears, it’s not something we’re that concerned about. In fact, if anything, we’ve taken some actions over the last 12, 18 months, to re-position the risk mix of that business by selling a low-rated tranche of risk of our receivables last year. This year, the airlines portfolio’s growth is outstripping the rest of the portfolio, so over time you will definitely see the risk mix change.

Of course there’s a seasoning effect in cards so you won’t see that benefit come through yet, probably in a year or so’s time, usually about 18 months. We feel happy with the growth in the business as well, receivables are up 4% on a dollar basis underlyning. We think we have the ambition to grow even a bit better than that, but we want to pay due care and attention to credit control and where we are in the cycle. But at the moment, it actually feels pretty good and certainly isn’t anywhere near thinking that we need to put the brakes on growth in that business from a credit control perspective.

We haven’t given the balances in structural hedges. I have a funny feeling we may never have given those balances, but you may remember this better than I will. We haven’t made much change to the structural hedge profile in recent times. Ten-year rates are now, last time I looked, about 1.5%. You’ve probably seen the bottoming-out of the grinding down into lower rates from a structural hedge.
We are reasonably rate-sensitive; if rates do back-up and stay higher, it takes a little bit of time to grind back up into higher rates, but in the outer years that can become quite a powerful effect to net interest income. I take your point that you’d like to know more about that, and we’ll have a think about what we can show you in future quarters.

Jes Staley

Let me just give you some more insight into how we think about this. There are two economic realities that we face today as a bank, one is almost record historic low unemployment in the UK and in the US. And that is the most attractive time for an unsecured consumer credit portfolio like we have in the US and the UK. The other part of the economic environment is we’re at almost record historical lows in financial asset volatility and I’m sure as you read every bank commenting on earnings, there is a really high correlation between volatility and performance in one’s Markets business, or one’s wholesale business.

So as we think about the overall risk profile and overall return profile of the bank, we do believe in economic cycles and we do believe that there will be another economic cycle. So remaining balanced as a bank strategy matter is important, given where we are in the cycle right now.

Guy Stebbings

Can I just come back on the structural hedge? It would be helpful to get the notional balance because when I look at it, it appears to me you might be earning less on that in terms of yield relative to some of your peers, but I don’t have all the numbers to work out the exact maths, so that would be very useful if you were able to give it to us at some point.

Tushar Morzaria

I understand where you’re coming from. I know it doesn’t quite answer your question, but the sensitivities that we’ve put out historically hopefully gives you at least a sense of our gearing towards the rates. But I take your point, if you wanted to compare absolute net interest income at today’s levels, it’s a little bit tricky to do, and I’ll have a think about how best to help you on that in further disclosures.

Chris Cant, Autonomous

I have just one question, but it’s got two parts. The first is very straightforward. If I think about your headline return in the CIB for the nine months, the 9.7%, obviously in the first-half you were calling out the particularly chunky write-back you had in the first quarter and I understand that you haven’t adjusted for that in that 9.7%. If I just adjust back the provision write-backs you’ve had during the year, essentially zeroing the provision line, which is obviously quite generous especially in light of your comments on potential pick-up in the fourth quarter, or timing effects around the fourth quarter, that would imply an 8.8% nine month RoTE for the CIB on my maths.

And the CIB doesn’t tend to generate any profit in the fourth quarter, I think the average for the last four years has been about minus £100m, so if I just annualise that 8.8%, that would imply 6.6% as a run rate for the year, at this point. So the first question is, do you agree with that assessment as your current run rate?

Following on from that, obviously you’re quite pleased with the performance of the business in terms of market share, league table positioning, but I guess the questions around the adequacy of CIB returns are going to persist. It’s been a pretty good year overall for the CIB, it seems, in terms of your commentary.
So do you expect to deliver a meaningfully better rate of return than that 6.6% in 2019? And if not, will you accept calls from the activists to scale down parts of that business? Thank you.

Tushar Morzaria

Well, why don’t I cover the way you’ve thought about it? I think, firstly, on not-adjusting the credit line; hopefully you’ve got used to us trying not to adjust but we’ll just give you the information, and you can include and exclude as you see fit.

The way we think about it is, that impairment number is as much a function of good credit control as it is accounting effects. And if there’s one place where we have seen a little bit of stress in the UK, it is in corporate credit, and through, really, our Risk team, firstly hedging that exposure and, secondly avoiding lending to some of the troubled parts of sectors that people will be familiar with. So we’ve avoided some of the more significant credit issues, but I would put that down to good risk management control. And we’ll see where we go, but obviously, risk management control has a cost to it. We may avoid impairment, but, obviously, there’s a cost to avoiding that impairment as well. So, I think, we’ve got to look at it on a balanced basis.

Chris Cant

You did adjust for that in the first quarter though; you specifically called it out and said, our typical quarterly impairment rate for the CIB is something like £50m a quarter. The bit of maths I just presented was assuming zero per quarter. I presume that your return targets heading into next year don’t assume ongoing write-backs in any of your businesses?

Tushar Morzaria

I don’t have the crystal ball on the economy, so if impairments are lower, it’s because we’re making very deliberate decisions to either lend less or hedge more and there’s a cost associated with that. If we feel the economy’s strong and we want to lend, then we wouldn’t hedge as much, so you’ve got to look at it in the aggregate and it’s fair to judge the business, in my view – you should take your own view on it – without adjusting for corporate impairment, which is as much driven by single-name credits as it is by any sort of portfolio effects.

Chris Cant

Okay, so if I just annualise your 9.7% headline, that’s still around 7% return. Let’s put aside the debate about provision write-back. Annualise your 9.7%, accepting the fact you don’t tend to make any money in the CIB in the fourth quarter because of the levy, that would be a 7%-ish type run rate, so do you accept that that’s the current run rate for the CIB?

Jes Staley

We’re not going to pre-judge the fourth quarter. The CIB RoTE was 9.7% for the first nine months. That’s 130 basis points higher than it was last year. Our understanding is that the issue that the activist is focused on, although it hasn’t been articulated to us yet, is in the Markets business, and we’ve been very clear, the Markets business is higher than that 9.7%: it’s comfortably in double digits. I would also add, the CIB is running lower RWAs this year than it was last year, and despite that generating 130 basis points of improved profitability. We are gaining market share across the entire Markets business. We’ve done that now for four quarters in a row. We deliver numbers that aren’t with adjustments or Non-Core or whatnot and I think those numbers speak for themselves.

Chris Cant
Okay, and on the second part of my question, in terms of do you expect to deliver meaningfully better rates of return in 2019 in the CIB? And if not, what’s your response to the activist calls to scale down parts of that business likely to be?

Jes Staley

We’ve gone through a two and a half year restructuring of this bank where we dropped the RWAs in the Investment Bank by over £100bn. We’ve completely re-managed the cost profile of this bank; this bank is generating a double-digit return. We don’t believe the time is now to reconsider a new restructuring.

Martin Leitgeb, Goldman Sachs

Firstly, on the IB, and congratulations on the strong set of numbers there again this quarter. I was wondering if you could provide a bit more colour on what the source of market share gains was this quarter and where precisely within Equities and FICC you have experienced those gains? I’m essentially trying to understand if we should expect you to continue to gain share in those segments going forward, or by when you would expect to start to perform more broadly in line with industry trends. The second question is, more broadly, on Brexit. So, if we were to assume there would be an orderly withdrawal agreement, transition period and so forth, where would you see most upside here for Barclays going forward? If that were to happen, would your risk appetite, for example, in the UK change, that you would again start growing card balances, as an example? Or how do you think in terms of upside potential here for your franchise? Would you benefit if there would be a kind of orderly withdrawal with a longer transition period?

Jes Staley

I’ll take the first question, and thanks for noting the uptick in market share in the Markets business. I would lay it at three issues. One is people: we’ve had a pretty significant change in the management of our Markets business since Tim Throsby came on board, and we are very confident that we’ve got very talented people on that side of our business today. The second one is, we have increased the use of our balance sheet, and that is resulting in increased activity from the buy side through Barclays. For instance, in the third quarter, our Equity Prime Brokerage balances were up 11%. So, by giving a balance sheet with very low RWAs to our investing clients, or institution clients, that’s where we’re gaining the market share in, basically, our flow agency business.

And then thirdly, tech – we started, a year and a half ago, an entirely new investment programme to overhaul our electronic trading capabilities. So, we’ve now completed that for rates in our interest rate swaps business, and we’ve seen a 10x increase in the electronic trading that we’re getting on that side of the business. We just recently rolled out a whole new electronic trading platform for our Equities business with all new routers, and the feedback we’ve gotten from our major equity institutional investors has been very positive and our volumes are up significantly.

So, it’s a combination of getting the right people there, giving them the support of senior management. We have increased our balance sheet and we are generating very attractive marginal returns where we’ve done that, and then finally, we are overhauling our tech platform. And we’re almost done there, and that’s generating additional volumes for us as well.

Tushar Morzaria

The stance we’ve taken, certainly in our UK consumer business, going into where we are is somewhat cautious, we’ve talked about that for a couple of years. We haven’t grown our unsecured lending book for over two years now and have prioritised very modest growth in mortgages. I think, if there’s an orderly
exit and the conviction around the strong economy in the UK continues, and as importantly, if the US and Europe continue to be strong, the UK can benefit from that. There may be an opportunity to reposition our stance there. That could be very beneficial, as we have terrific franchises across the whole waterfront of retail small business and corporate banking. But we are quite diversified if it doesn’t turn out to be like that. We’ve called out that half our revenues in Barclays International arise from the US, or are based in US dollars, so we have a currency hedge there. Of course, many of those dollar revenues are in consumer businesses in the United States as well, so we don’t see that as necessarily being linked to anything that’s insular to the UK.

I think, the other thing that feels quite interesting to us is regardless of whether it’s orderly or less orderly, we have an operational bank on mainland Europe through our bank in Dublin. One of the most exciting opportunities for us is for Corporate Banking to participate in a Euro clearing-type activity. So, the ability for a UK domiciled bank to provide Corporate Banking services with a relatively light footprint on mainland Europe, and to participate in Euro banking services as well as being a sterling clearer. I think, that feels like quite an interesting proposition, given our geographic nexus. The way we think about this is, who knows which way this will go? I think, we’re reasonably well positioned for most outcomes.

Jes Staley

Yes, I referred to in my comments about the electronic payment system that we rolled out in the Corporate Bank and the impact it’s had, in terms of dropping manual processing, that also has extended our functionality, in terms of taking the corporate banking network to Europe, irrespective of what happens with Brexit.

Fahed Kunwar, Redburn

The first question is on Barclays UK. Performance is very strong in Q3. It looks like, if I annualise it, it’s up 4.5% half on half. I think you talked about being up 3% half on half in Barclays UK revenues. Does that mean we should expect a slowdown in Q4? It’s certainly what consensus is expecting, or should we expect some benefit from the rate hike to start coming through in Q4, so actually, revenues can be stable or up, even on a good Q3? So, is 3% still right, or is it going to be better than that, on the UK?

And then on your point about UK liabilities as well - you talk about upward pressure on time deposits, but, obviously, the big banks are still seeing large shifts into current account because the rate environment, while increasing, is still very low. So, how much is the increase in time deposits on your funding costs offset by the increased generation of current accounts, which, obviously, is all free?

On the capital side, how should we think about risk-weighted growth and actual Core Tier 1 build? Because if I do the maths, and I won’t go through it, but with pensions, IFRS 9, dividends and consensus of a 40% payout, a little bit of litigation on PPI, you only generate, probably 30/35 bps, I think, a year, even with a current generation. So, do you think that, actually, you can pay all the way down to 13% going forward or do you think risk-weights won’t grow from here? What am I missing, in terms of where you think the buyback is coming from, in terms of the capital levels you currently hold? Because 13%, as it stands, is very low, versus the other UK banks at the moment.

Tushar Morzaria

I’m not going to give a revenue forecast for Barclays UK. We’ve obviously got a decent market share, we are one of the largest small business banks, we have 10% of mortgage market share, we have the largest card market share, etc. So, you wouldn’t expect us to necessarily grow our top line well above the way the UK is growing. The way you should think about the UK business is that if the UK economy grows, that should be good for us. If the rates environment improves, that should be good for us, but index it to the
UK beta. And then operational improvements: you’ve seen us deliver positive jaws in this quarter, and that’s something that we’re very focused on, showing some operational improvements over the year.

In terms of the churn, if I got the gist of your question right, you’re really asking about figures on migration out of current accounts into time deposits: what does that do? We haven’t really begun to see that much yet. It’s something we are, of course, quite focused on, and looking for signs where that rotation may happen, but we haven’t seen it yet, and we’ve had two rate rises and it still seems quite sticky in current accounts at the moment.

In terms of capital build, again I won’t go through the maths, as you suggested, but I’ll just maybe think about it in a slightly different way; if you look at this year in 2018, if we receive regulatory approval, then we’ll pay 6.5p in dividends over 2018. We’ve talked this morning about retiring the US dollar preference shares, as well as dollar AT1s. That’s worth about 6p as well. In addition, we’ve paid about 8p to deal with a DoJ fine. I’m not even including PPI in that. We don’t expect to be paying a DoJ fine of that quantum next year, of course, and we don’t have any dollar preference shares, of course, for next year. So, that gives you a sense of the capital generation capacity of the bank, and it is an objective of the board and management to improve returns on capital to shareholders. We’ll probably talk more about that once the board has come to a decision around full-year results.

Jes Staley

So, paying out 20.5p and landing the CET1 ratio at 13.2% underscores the capital-generation ability of Barclays.

Fahed Kunwar

Sorry, Tushar, I know you don’t want to give guidance on the UK, but you did give 3% half on half guidance. Has that guidance been taken away now, or how should we think about that guidance? Because that’s what’s in consensus.

Tushar Morzaria

I’ll get our IR to pull that. I don’t remember giving that guidance. We’ll get back to you.

Rohith Chandra-Rajan, Bank of America Merrill Lynch

On CIB, obviously a very good revenue performance, but then, looking at the cost line, investment spend led to cost growth in the quarter as you flagged, so I’m just wondering how you think about that balance between investment and cost efficiency going forward. And Jes, in an answer to a previous question, you suggested that you were coming to the end of the tech build-out in the IB, so, really just thinking about the cost trajectory in CIB, please?

Jes Staley

Yes, obviously, our objective is to deliver a double-digit return in the CIB and the first three quarters were close, but we did fall behind in spending on our technology platform, and we needed to address that. So, we have done that. We did fall behind, we think, in the scale and sophistication of our corporate transactional platform, particularly around payments, and we wanted to extend that to Europe, so we’ve been spending money on that. We are going to manage to a lower cost: income ratio overall for the group to get it below 60%, and we’re comfortable that we can do that. But also, given the profitability of the bank, we need to start spending for growth. And the growth, whether it’s in the Barclays UK numbers, whether it’s in the US credit card numbers, whether it’s in our small business banking, that growth takes investment, and today, we have the ability, as we’ve freed up costs from things like setting up the ring-
fenced bank and setting up the IHC and dealing with conduct and litigation issues, we have the ability to invest in our platform to stay in front on the digitisation of banking.

Rohith Chandra-Rajan

And will the CIB cost: income ratio reflect the overall group trajectory?

Jes Staley

Yes.

Tushar Morzaria

Yes, so we'd expect to improve it, yes.

Ed Firth, KBW

Can I just bring you back to the question about profitability? I get what you’re saying; you’ve obviously had a pretty busy two and a half years, in terms of restructuring, but if I look back at your 2015 numbers, you were quoting a core RoTE then of 10.9%. we’re now at 11.1% and, I guess, the bulk of that difference is, you now don’t include litigation costs, so it’s probably pretty much flat if you had them the same. And your targets are arguably some way below even current levels for the next two years. So, I guess, you’ll be frustrated by the share price; I get as much in terms of your comments around buybacks, but what could you point to over the next two years that you think is actually going to change investor sentiment or views on a performance that seems to me to be pretty steady for some consistent period now?

Jes Staley

I’ll pass to Tushar for his comments, but what your analysis fails to take into consideration is, we have significantly recapitalised this bank since 2015. We’re running on a much stronger capital base and a CET1 ratio of 13%. And back in 2015, I think, you’re somewhere around 9%. So, you need to adjust for a 400-basis point improvement in capital strength of the bank, and you also should add to that the calculation of risk-weights for assets is much more rigorous today than it was three/four years ago. And so, I think, when you take an adjustment for the calculation of risk and an adjustment for the higher capital base that we are properly running on today, that has a pretty big impact in making an apples to apples comparison of 2015 versus 2018.

Tushar Morzaria

Yes, that’s right, Jes. The only thing I’d add to that is the share price is for others to determine. What management can do is focus on the things that we can control, and that’s trying to deliver an acceptable level of profitability on the capital invested in the company with a degree of sustainability and volatility that’s appropriate. And that’s what we’re most focused on.

Ed Firth

It was actually 11.4%, but, okay. Thanks very much.

James Invine, Société Générale

The first question is on the US cards portfolio: I was just wondering if you’ve got any new partnerships there in the pipeline, or if we’re just relying on the existing partnerships to supply the growth, looking forwards. The second is on Brexit: so, you’ve talked about what you’re doing in Ireland and so on. I was just wondering, how much effort is required from your clients to make that switch as well, i.e., how
disruptive is it going to be for them? And I was just wondering, when you’re thinking about the targets, have you factored in any client losses, who use that switch as an opportunity just to maybe look around at some other banks?

Jes Staley

In terms of cards, we can’t disclose names, but, obviously, we continue to talk to potential co-brand card players in the US. We are one of the more active co-brand participants there. So, really, we’ve got a couple of programmes that are relatively new. American Airlines, which is less than two years old is showing great growth. JetBlue, which we won from American Express, is showing great growth as well. Obviously, the big contract we got late last year was Uber, and a lot of work is being done to maximise their 60 million consumers in the US that have an Uber app on their cell phone with an embedded credit card. So, the opportunity for growth on that Uber platform is significant. So, it’ll be both the current programmes that we’ve got, and another point that we should point out is, almost all of our programmes are locked into 2022. So, it’s a very secure book of business.

Vis-à-vis Brexit, we are very focused on the impact, particularly in the supply chain in the UK and what may happen in that supply chain. We’re a major player in the agricultural industry across the UK; one in every four dollars lent to farmers in the United Kingdom comes from Barclays and the agricultural sector may be one of the most impacted sectors in Brexit. Every farmer in this country gets a subsidy from the European Union today.

So, we are focusing on it, but we’ve been very prudent in our underwriting standards across the credit platform, as we’ve talked about, and we’re doing what we need to do, as to work with our clients to make sure Barclays does everything it can to help them deal with any eventuality in Brexit.

Tushar Morzaria

Yes, and the other side of that question is whether would we expect any counterparties either rotating away or towards us? We certainly don’t expect anyone or any meaningful amount to rotate away from us. We’ve been very focused on being ready for Brexit for some time now, so, there may be an opportunity for others that may not be as prepared as we are to rotate to us, but that’s for clients to decide, rather than us.

James Invine

Okay, and have you already been through this process with a lot of your clients? Have you got commitments that they will just make the switch from London to Dublin?

Tushar Morzaria

Yes, though it’s an active dialogue. The entity is up and ready; it’s licensed, it’s rated, so, absolutely, so far, so good.

John Cronin, Goodbody

Just picking up on your PPI provision comment in the report, so you see that as appropriate, the closely monitored complaints trends. I am curious as to what complaint trends have looked like recently, particularly in light of the FCA’s update this morning?

The second question is on the CIB. Clearly very strong performances in recent quarters. Do you see that as putting paid to any longer-term concerns, in terms of your ability to effectively compete, given the
balance sheet size and very strong capitalisation of your US competitors in that market, or do you have some lack of confidence, in terms of the long-term trajectory of that business?

Tushar Morzaria

PPI complaints have been reasonably stable, so, so far it’s within our projections. I think, there are two more marketing campaigns before the August deadline. So you normally get a bit of flurry of activity around those marketing campaigns, but as we stand here today, we feel reasonably well provided, but it’s something we will stay focused on as the deadline’s getting closer and closer, which is a relief for all of us.

Jes Staley

On the CIB, I think, we have all the balance sheet that we need to successfully compete against US competitors. We also need to recognise, our largest footprint in investment banking is the US, regulated by US regulators, exactly as if we were a US bank. And then whether it’s the top-three underwriter of debt globally or what we’re doing in our prime business with financing fixed income, through to credit, we think we have all of the capabilities necessary to compete. And the bank’s balance sheet overall, if you look at the total balance sheet, compared to the US players, particularly people like Morgan Stanley or Goldman Sachs, we have plenty of balance sheet capacity to compete.
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