Barclays PLC Q1 2018 Results

26 April 2018

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

Claire Kane, Credit Suisse

Hi good morning so my two questions, firstly on costs, so you haven't changed the 2019 cost target given the FX tailwinds and given you are running down 6% year-on-year already, and that target versus 2017 is only minus 2-4%. I guess I can appreciate the FX benefit will fade but could you give us some sense of whether you are going to be at the lower end of that range? And also what's the likelihood that you could actually come within the 2019 guided range for 2018?

The second question is on the consumer cards and payments business. How should we think about the revenue margins going forward – would we expect your revenue growth to lag your 10% balance growth and for that to be compensated through lower cost of risk? And also could you update us on what your broader plans are in the US payments space given the announcement with PayPal?

Tushar Morzaria, Group Finance Director

On costs, we are pleased with our cost performance – obviously we are benefiting on the costs line from a stronger sterling. As of course you guys are all aware, unfortunately a stronger sterling is less helpful to profit, so I wouldn't necessarily call out that in and of itself as a positive, we much prefer a weaker sterling.

I think as we've done in the past, Claire – we've only given specific guidance for 2019 – as we get into 2019 and we see what currency rates are prevailing then, we will moderate the objective accordingly. We've deliberately given a range of cost outcomes for 2019 struck at historical rates and the reason for that – and I think it's maybe the gist of your question – is if performance in our top line isn't as robust as we would like, then we would obviously have the opportunity to drive costs lower. But we are keen on ensuring that we keep a healthy level of reinvestment back into the company and you can see that across all of our businesses – Jes will talk a little bit more about payments and PayPal, but you can see that in some of the consumer-facing businesses that we have with card acquisitions. We talk about the automated processes that we have around mortgage approvals – n average we're approving mortgages within ten days now and for non-broker originated mortgages it's substantially lower than that.

We put some productive investment into some of our e-trading platforms. So we are keen on reinvesting back into the company but in doing that ensuring that our cost base is appropriately sized and certainly intending to have a cost: income ratio of below 60% next year.

In terms of CC&P, very briefly, the J-curve of that business you would expect revenue growth slightly to lag receivables growth. But the businesses that are growing well, for example, some of the airline accounts whether it's JetBlue, Frontier, Hawaiian, American – these are really, really good accounts; JetBlue balances have doubled over the last couple of years. So you will see those J-curves, if you like, complete and we're back into more consistent revenue growth, or in fact, even outstripping receivable growth. But that will be a little while to come yet.

Jes Staley, Group Chief Executive Officer

Let me give you an anecdote around the J-curve. We started the American Airlines co-brand in the first quarter of 2017; you spend money in terms of advertising inside the airline, you spend money in terms of having very attractive sign-on reward programmes. In the first quarter of 2017 we acquired 30,000 new consumer credit card clients through American Airlines. By the fourth quarter of 2017 that was up to 120,000 in that quarter. So that's the growth rate that you can get but it does require a marketing spend upfront and that's what gives you the J-curve. So it will be some time before revenues catch up with that 10% year-on-year growth rate in receivables, but you should expect that catch up to accelerate as we go through the end of 2018, beginning of 2019.

We're very pleased with the announcement with respect to PayPal particularly here in the UK where we're connecting their payments platform into our banking app which is I think perhaps the strongest banking app across the UK; connecting it to our mobile banking as well.

We think this will be immensely beneficial to both PayPal and to Barclays given the breadth of our 24 million consumers across the United Kingdom and given their significant market share in the payments space. So I think that's reflective of a new approach across technology which is partnering, and we like this partnership with PayPal.

In terms of the US, we have been incrementally increasing our digital bank. As you know we gather a lot of retail deposits in the United States and bringing in a relationship with PayPal I think opens up opportunities for us in the United States as we want to grow that consumer footprint.

Tushar Morzaria

Claire, just one other point before we go on to the next question that's worth just pointing out on your question around CC&P and revenue growth. The other thing we look at very closely is just how jaws are performing as we grow that business. And in Q4 jaws were broadly neutral, and I'm referencing local currency here because FX rates can affect that a little bit. And jaws in Q1 were only very slightly negative so we're again being very cautious in ensuring we can grow that business but without experiencing adverse jaws. I hope that's helpful.

Joseph Dickerson, Jefferies

Good morning guys for my two questions the first one is on the hedge accounting that you called out in the Head Office and it seems like the second quarter in a row where the Head Office negative income has been quite material and you're guiding to further negative income in that unit. Could you explain in detail what precisely this hedge accounting drag is and also is it something new that cropped up because it hadn't been flagged before? So some detail there would be very helpful to think about, in particular the trend going forward.

And then secondly on the Investment Bank, so there is a 64% cost: income ratio in the quarter and obviously there's some Q4 inflation related to the UK, but is that a number we can think about going forward obviously subject to the environment remaining fairly okay? And on that, how much of the Investment Bank performance around that cost: income ratio both on the cost side and the income side relates to some of the specific actions you've taken around the balance sheet and committing capital to clients? I know it's always difficult to say, but obviously you've spent a lot of time committing capital to customers over the past couple of quarters. So, how much of the move in the Investment Bank is specific to Barclays and how much is market?

Tushar Morzaria

What may be helpful to you as you're thinking about where Head Office may look over a full year, I think there are only two items on the top line that I would call out there, one of which you probably already had in your model somewhere but that's the legacy funding instruments that we've reported now in Head Office; that will run as we called out about £90m a quarter while those instruments are outstanding.

If we were to retire those instruments then that just drops out of the top line. The other component is hedge accounting, which I know will be new to many of you. In its simplest terms, hedge accounting is all to do with the relationships we have between fair value hedges and our consumer or banking book businesses where we take the benefit of hedge accounting to show our P&L on a matched basis.

When you break those hedge relationships, those built up cash flow hedge reserves need to amortise back into P&L over time and that's quite a technical accounting determination on occasion, depending on exactly how the hedge relationships are broken; you would recycle that P&L immediately and under other occasions where you're portfolio hedging you have to recycle that P&L back over the life of the original hedge.

And that's what we're seeing here. The reason why you may not have seen it in the past is that I guess we've got less and less in Head Office, so the puts and takes that you would otherwise have are just fewer, and really it's only those two items that essentially are going through Head Office.

For a full year we've guided for somewhere between £100-200m for this year and possibly a similar quantum next year. Now, again they will reduce as obviously those hedges themselves unwind but I would say that for modelling purposes think about that £90m a quarter and think on a full year basis somewhere between £100-200m for those hedges this year and possibly again next year, but we'll try and do our best to keep you posted as to what to expect in the future.

Beyond that Head Office there's really not much left, just some very small remnants of Non-Core but nothing that we felt was significant enough to call out. The other point I would make is that of course, although Head Office is a negative in terms of P&L and a drag on returns, we're very much focused on managing the group return and the double digit return that we posted in the first quarter is something that we're very, very focused on.

And a final comment on Head Office which may be helpful for your modelling purposes, as far as capital goes we are allocating capital to the businesses on a full 13% basis, so we've got a slightly unusual scenario – we're running at a 12.7% CET1 ratio for the group, so if you like we've over-allocated capital relative to the group position. But we're very comfortable with that as it ensures we make the appropriate returns assessment and marginal return.

Joseph Dickerson

Tushar, can I just add, where was this £90m impact from the legacy capital before; why is that being flagged now you've been paying the 14% on those instruments for some time?

Tushar Morzaria

Yes and we haven't just flagged it just now, we talked about this at the full year results so hopefully you had a chance to anticipate this that we would be reporting here. Where it was allocated; £30m of it was allocated to the Markets business, the rest was proportionately allocated to the rest of the bank. And the reason why we're highlighting it now or reporting it now is that these are instruments that are not really indicative of our marginal funding costs; we're not really paying anything like these levels to generate new funding. And therefore when businesses are making marginal decisions, it will just potentially make an incorrect decision.

And you know the RCIs that you're familiar with will come for a call next year, and we've got the US dollar prefs in there which of course have a quarterly call feature. But these are probably transient in nature as well and therefore it gives you a sense of knowing when they drop out and the effect they have.

Jes Staley

Vis-à-vis the cost: income ratio, we stand very confident behind our target of getting that cost: income ratio below 60% in 2019. Obviously with our mix of businesses we have different contributors to that cost: income ratio. Our consumer bank we expect to be in the low 50s, if not below that, and we are on our way to getting there. Corporate and Investment Bank had 64% and you would expect a Corporate and Investment Bank to run at a higher cost: income ratio than a retail bank. At 64% we are very competitive with the street and that underscores the fact that we have the scale to produce the revenues we want to and at a competitive level of profitability.

Your questions about the growth in markets and where it's coming from: the first thing is there has been a gain on our side of market share in both Q417 and the Q118; revenues in the markets business were up 21% whereas the US banks on average were around 10% and the European banks I'm sure you've seen. So that was a strong performance on a relative basis. In terms of where would you attribute that improvement from; as we've talked about – both Tim Throsby and myself – it's a function of people, technology and reallocation of risk-weighted assets and balance sheet.

I think the people factor has been very important, starting with Tim himself and the team that he's put together below him. Technology: we are about halfway through the re-engineering of our electronic trading platforms; initial rollout was in the fall of last year around vanilla interest rate swaps. And you can see in Tradeweb our market share in packaged trades of interest rates swaps has grown 4x since we launched that electronic trading platform. And we have more to go as we go through 2018, but tech has clearly had an impact for us.

In terms of reallocating capital what we talked about is in the second half of last year we took £10bn of risk-weighted assets that were in our corporate loan book generating, in terms of those overall relationships, RoTEs in the low-single digits, and reallocated that £10bn to our markets business between credit, equity finance and macro where we were generating at the marginal rate high-teens to low-20 returns on tangible equity.

And you can do the calculation backing how that improves our profitability. So I would say overall that most of our performance in the first quarter was driven by the investment we made in people, technology and better allocation of our risk-weighted assets. But obviously everyone in the market benefited from improved conditions and this is a market that will show volatility, but we like the progress that we're making.

Jonathan Pierce, Exane BNP Paribas

The first question is on the return on tangible equity guidance, the second on the US card book. On the RoTE, when you put the RoTE guidance in place the TNAV was £2.81 per share and you explicitly told us for planning purposes that was going up. Now since then the TNAV is down 11% and I accept there is some acceleration of TNAV headwinds in the last few months but it still looks like it's going to struggle to get back to £2.80 any time soon.

And then of course we've had this change in the US tax rate, so I can understand why at full year you were reluctant to increase the RoTE targets at that point, but why are we not seeing an increase in RoTE guidance now; what has changed to maybe dampen your enthusiasm a little bit since Q3 on the numerator and the RoTE equation?

The second question is on the US card book, I can see that delinquencies are flat in the first quarter and clearly US books tend to be a bit more seasonal and assisted in Q1. But the formation of new NPLs in your US book is clearly picking up I think and I'm really wondering at what point you would stand back from your growth target for balances of 10% compound a year over the next few years. And just a supplementary on that, you mentioned economic forecast changes in the US and this is the first set of numbers we've seen where these changes in IFRS 9 are having some impact. Can you give us a sense of the scale of what has changed in the forecasts, the impact of that on the impairment charge in Q1 in the US card book was please?

Tushar Morzaria

Yes thanks Jonathan let me take them in the order you gave them. I think in terms of a return on tangible equity guidance, if anything we're more enthusiastic about our profit objectives than we were when we set those targets. You mentioned a couple of things that are beneficial – obviously US taxes are of course extremely helpful to us and we've guided you to a lower tax rate and you've probably flown that through.

The rate environment still looks helpful; currency rates are probably less helpful than we would like but they'll be what they'll be. So I think I certainly wouldn't make any suggestion or leave you with any sense that we're any less enthusiastic about our profit objective. Now, how that relates to a return on tangible equity obviously is where tangible book will be. You're right to call out the two one-time impacts for IFRS 9, and now conduct and litigation which we had some sense of, as well as you did.

Tangible book, absent those two things would have grown 7p just from profit retention but again then we've got two items that are very hard for us to forecast; the currency translation reserve and the cash flow hedge reserve. Of course the cash flow hedge reserve is an interesting item for us because it puts downward pressure on tangible book as rates back up, and of course that's healthy for us, as rates back up you can see how rate-sensitive we are.

But, absent movement in those reserve items we don't have a crystal ball on currencies and rate levels, in the future, tangible book should grow from here principally from profit retention, net of any distributions out to shareholders and hopefully you will see that on most people's numbers over this year and next year, tangible book appreciates very significantly.

Now to the extent, for whatever reason tangible book is lower than we anticipated and it is driven by interest rates, interest rates backing up of course will help absolute profitability and certainly help absolute return. And one of the things we're very keen on stressing rather than updating returns targets every quarter for these kinds of moves, it is to stress that we are targeting greater than 9% and greater than 10% respectively on a higher tangible book.

I hope that's helpful to give you some sense of how we're feeling about the potential profitability of the company and really focused on driving that up.

In terms of US cards, at the moment we actually feel pretty comfortable with credit conditions in the US. Delinquencies are up slightly but relatively small increases on relatively low numbers, and very much consistent with where we're seeing peers in the US cards business operate. And you're right to point out that under the new accounting framework we have seen a benefit to the US economic environment.

The two areas that improved and it was really off the back of US tax rates where there was structural revision particularly actually in HPI where there was an improvement there and some very modest improvements to GDP. And the thing that you'll get more used to as you see further reporting, so it's not only the baseline forecast scenario that you have to look at, you also look at the upside and downside scenarios. And actually in the US it was probably slightly more beneficial to the downside scenario actually rather than the baseline and upside.

And that's what resulted in a revision to our expected impairment. So at the moment we feel pretty good with that. We feel that were being paid very well on the risk and the bulk of our partnerships, which of course are clustered around some of the bigger airlines, tend to be relatively high FICO scores. Maybe that helps you there as well.

Michael Helsby, Bank of America Merrill Lynch

Thank you I've got two questions as well but just before I ask my question I just wanted to clarify a point that you made before on Head Office. So obviously there was negative income of £238m in the first quarter. You've told us that £90m of that was funding and you're guiding to £100-200m of hedge ineffectiveness for the full year, so it implies that there's another big negative in the first quarter unless you're saying that actual hedging effectiveness is extremely small in the remaining quarters. It's just to clarify, is that what you're saying, or if it's not what you're saying can you tell us what the other big negative was in Q1?

And then my actual questions are just back to the US card book I think delinquencies in credit card books are a little bit misleading given the pace of the charge-off that you typically follow so I was wondering if you could tell us what the charge-off rates were in the US card book and how that actually changed quarter-on-quarter and year-on-year.

And just linking into your PayPal deal, what's the economics of that, how should we think about it and what's in it for you? And then it would be really helpful if you could just give us a comment on the momentum in the CIB as you've gone into Q2.

Tushar Morzaria

On Head Office, it's important that we get this clear for you guys. So to your point, Michael, guiding to £90m a quarter on legacy funding instruments; guiding to £100-200m for the full year in hedge accounting and you're right to imply that that leaves a further negative in Q1, which I wouldn't expect to reoccur.

That negative in Q1 is really a combination of two things, and sometimes it'll be positive, sometimes it'll be negative. One is actually hedge ineffectiveness. There's no predictability around that. We've had positive quarters, we've had negative quarters, but it will be trend basis zero. And the net result from treasury operations, which again we've had positive quarters and negative quarters, and net trend basis will be zero. So hopefully that clarifies for you.

On US cards, the charge-offs, quarter on quarter, I don't think we've disclosed this for Q1 but it won't look that different from full-year results. I haven't got the annual report in front of me, so I'll get someone to refer you back to credit risk losses as we disclose them.

But essentially, it's fairly unchanged, I would say, and still feels a very attractive credit environment for us. But I take your point, as we go further, particularly in an IFRS 9 world, we may be more frequent in disclosing net charge-off rates, but in terms of year on year and sequential quarters it looks fairly well-behaved and consistent with the risk appetite that we have, and we feel we've been quite well paid on that risk.

Jes Staley

On PayPal, we haven't set out economics or numbers for the street yet, but what I would say is, given the market share that PayPal has in the UK, in the last mile of payments, plus we have ten million consumers in the UK that bank with us electronically, we think our mobile app connected to PayPal has enormous potential for us. So I think as we work on the partnership going forward, we'll obviously start to give the street some economic numbers as to the implications.

Vis-à-vis the CIB, the comment I'd make there is we had pretty good performance across all three months in the first quarter, so it was not a quarter made of one month. Let's leave it at that, as you think about that business going forward.

Michael Helsby

Just to push you on PayPal, Jes, enormous is a very big word, in more ways than one. Obviously, you're leading us to think this is quite a material new relationship for the group. Is that how we should think about it?

Jes Staley

I think it's important, yes. Given the scale of PayPal in the UK and given our scale, I think it's important. I don't want to get ahead of myself, so more to come.

Andrew Coombs, Citi

Firstly, I just wanted to come back to the CC&P business, if I look at the provision, quarter-on-quarter, ever so slight dip, £259m to £252m, that's despite favourable FX on that line, you've had the positive US model adjustment that you referred to, so it does seem like the underlying trend is heading up, which would fit with some of the arrears and delinquency data that you've shown. Could you give us a feel of what the underlying increase is in that book, quarter on quarter?

I have a request, which is whether it would be possible to split out NII and fees for CC&P? Currently, you only provide it for Barclays International, but given your change in the business mix in that business to a lower-risk approach, it would be very helpful for us to see the risk-adjusted margin there.

My second question is then on CIB, and particular the equity strength. You draw out financing and derivatives. Previously, you said, I think in the second half of last year, US equities flow derivatives had been weak, you'd lost personnel, you'd replaced them. If you could just give us an idea of how much of the improvement in equities is because that's come back online versus how much is from strategic initiatives underway, like the electronic platforms and also the corporate equity derivatives build that you've got underway?

Tushar Morzaria

On your request for splitting NII and fees, that's a fair point. We'll take it on board and we'll have a think about that. Understand why that request is there, so leave that with us.

On the impairment trend, we haven't broken out the effect of revisions to economic forecasts and like-for-like, if you like, impairment build. I would say that there wasn't anything unusual in this quarter, so I think if we're back onto, if you like, the old accounting standard, it would have been as you probably would have expected. There's nothing unusual that we'd call out.

The delinquency trends, which I appreciate can be a lagging indicator as much as a predictive indicator, were relatively very small tick-ups on a very stable base, and that's how underlying impairment would have looked as well. The book is growing but of course there's a seasoning effect before you get to see impairments build on the book. And that seasoning effect, of course, comes with revenues as well, so hopefully that gives you some context.

Jes Staley

I wouldn't underestimate the impact when you bring new management teams in, like Tim, like Steve, etc, and there's a demonstrable commitment to the business, and then you couple that with the reallocation of risk-weighted assets that we talked about, with providing some additional balance sheet. In terms of the electronic payment platforms around equities, there's actually more to come. We focused first on the rates and the currency side.

Your comment about activity with corporates is very correct. We also not only engaged with our traditional buy-side client but also we're re-engaging with our corporate clients, and there were a couple of important transactions for us during the course of the first quarter. But I would say, overall, a lot has to do with our commitment to that business, and we're feeling the results of that.

Martin Leitgeb, Goldman Sachs

My first question is on the Investment Bank. This morning, one of your main competitors, Deutsche Bank, announced they are pulling back out of certain products, and I was wondering if you see further scope for market share gain on the back of this? Is the Investment Bank currently the size you want it to be? Is this the new steady state going forward, or do you see further opportunities to invest on top of what you have earmarked already, to deploy more capital into the Investment Bank?

My second question is on London and London property. Some of the recent data shows a weakening property market, and I think what's coming out of the postcode lending data is that Barclays is, in particular, exposed to the performance of the London housing market. Could you share what your expectations are in terms of the London property markets from here, and how your book could cope with such a scenario?

Finally, a very brief clarification on PayPal. Is this a brand new agreement for PayPal, or is it essentially PayPal switching from one bank to Barclays?

Jes Staley

On the IB side, we are very comfortable that the capital that we've allocated to the corporate Investment Bank is sufficient for us to be the scale player that we're seeking to be and to deliver the services to our customers that we want to. I recently, in an interview, highlighted the CVS transaction, and that, given our scale, we were able to write an underwriting cheque for $20bn for that deal. There are only three banks that have written a $20 billion underwriting cheque – J.P. Morgan, Goldman Sachs, and Barclays.

So we have the capital allocated. With the additional capital that this bank creates now, what we want to do, first and foremost, is find areas in our consumer business which have the levels of profitability that we find attractive on a risk-return basis, as you see we're doing today, around our corporate bank, and as we're doing today around our high-quality FICO score, co-branded cards in the US.

So we want to put additional capital into those consumer businesses, but perhaps even beyond that, what we want to do as we generate excess capital, is return it to our shareholders. And that's the real, I think, step function that we have to make: increase the amount of capital that is flowing back to our shareholders.

Tushar Morzaria

Martin, on London real estate prices, residential real estate, yes, you're right, the postcode data shows a fairly broad spread of postcodes that are showing some decline in house prices. For us, you know our loan-to-value [on new lending], it's in, I think, the low 60s, and the new production that we do tends to be, again, towards the slightly lower end of loan to value.

It's something we pay a lot of attention to, we look at it very closely. We haven't changed really our risk appetite for a number of years, and most of the mortgage activity we have, as we've said in the past, a lot of it's remortgage business, and that comes through broker channels, so that's very helpful.

When you look at our stock of mortgages, I talked about the overall loan to value as being in the low 60s [as at 31 December 2017, the average LTV on new lending was 64% and the average LTV on total mortgage portfolio was 48%, on a balance weighted basis]. For London specifically, actually, it's below 50% so we feel very well positioned and still like that business and still prudently write new business, but you can see from our loan-to-value stats that we're towards the cautious end of that spectrum.

In regards to PayPal, it's not rotating one bank to another one. This is a brand new relationship with Barclays. It's transatlantic, in the UK and the US. Early days, but PayPal is obviously a very serious player in global payments; we're obviously a very serious player in the UK in payments, and increasingly so in the US. So very excited about this tie-up, and I think there are going to be some very interesting business opportunities that we'll be talking about in the future that derives from this.

Jason Napier, UBS

The first question is about CIB. I guess we'll all come to our own views on where market revenues may well be in the second quarter, but in terms of two of the businesses that, notionally, ought to be more stable – corporate lending and transactional banking – corporate lending looks to be, perhaps, suffering a little bit on the FX front, and the reallocation of capital and transactional banking certainly stronger than I had expected.

Could you give a sense as to whether you think the first-quarter run-rates are dependable for those two items in terms of gearing to FX and to the changes in RWA allocation that you have previously flagged?

Then, secondly, try and be a little bit more explicit on mortgage pricing in the UK. I appreciate you've put on a billion in balances in the first quarter, but that looks considerably slower than what you managed in the fourth quarter or the third. I wonder if you could talk to whether that is down to flow pricing, whether, as confirmed by the likes of Virgin, Lloyds and RBS, you are interested in having the market price higher to have a greater volume appetite, at least as far as you're concerned?

Tushar Morzaria

In terms of the corporate lending and transactional banking lines, there's actually less foreign exchange exposure there. It's predominantly sterling-based, it's mostly UK clients and probably, if not the largest, certainly one of the largest corporate banks for UK businesses, those that are headquartered overseas that need access to sterling markets, so corporate banking matters as well as domestic firms.

The corporate lending line, you're right, has somewhat come down, principally because of rotating capital that's earning a very low return into other parts of the CIB, where returns are more attractive. And we've made good progress on there, but there's still a little bit more to go, so there may be a little bit more downward pressure on that corporate lending interest line. Of course, if interest rates back up, there'll be some sort of muting effect there.

Transactional banking is a good business for us. One of the things we like when we're talking to these large, multinational corporations who we've got capital committed out to and we want to earn a better return is do they give us more transactional banking business, whether that's foreign exchange, trade finance, cash management, liquidity management, etc.

And so hopefully that business at least stays where it is and begins to tick up over time as well, and somewhat driven, of course, by just general corporate activity, but not so much on foreign exchange.

In terms of mortgage pricing, I think the key point to point out there is discipline for us. We're not going to chase pricing. We like the mortgages that we do, we like the return that we do, but we're not going to chase pricing down. I think a billion of net production, a touch lower, there are some seasonal aspects of that as you'd imagine, we feel pretty good with.

We have seen some margin pressure ease, some from obviously swap rates easing up as well, but also there's a lot of discussion with the term funding scheme coming to an end, will that have an impact on asset margin? And that may be driving a bit of it. Of course, as we see asset margins stabilise or even improve, our return for the new business will continue to tick up, and that'll be very exciting for us.

The other thing I'd mention on the term funding scheme, our loan to deposit ratio is a touch lower than some of our competitors, so we probably won't be as – I won't use the word squeezed or so – but perhaps we have a little bit more flexibility around liability pricing, and that may be of some advantage to us as well.

Ed Firth, KBW

I have two questions. One was a quick one in terms of detail. I just wondered if you could give us the credit risk loan position for Q1? Unless I've missed it, I don't think that's in the announcement. Then, question number two, I wanted to ask you about the mix of business and how comfortable you are, or whether you feel we should see similar levels going forward? Because I think, if my numbers are right, I guess around 75% of your profits now come from the Investment Banking operation, which is up markedly on last year.

I guess related to that, if I look at the business ex. the Investment Bank, that has performed pretty poorly. I think earnings are down about 30%, something like that. I get what you say about the hedge but I assume a lot of that's going to be related to the banking operation and you've now got a cost: income ratio in the Investment Bank which is below the rest of the group, which I would have thought was almost unique in banking. So I just wondered if you could give us some sort of idea of how we should look at the non-Investment Bank piece and how we should see that, going forward?

Tushar Morzaria

On the CRL, the credit risk loans, we haven't put them into the Q1 release. We tend to give quite extensive disclosures at the full-year and the half-year. Obviously, with CRLs, that'll be accompanied by some more information around IFRS 9, probably staging etc. and you'll have seen some of that in our transition documents. So you won't find it in this quarter's release but I think using the annual report for now will still be a pretty good reference point, and you'll get it again at the interims.

Ed Firth

So just to be clear, coverage ratios you think are broadly flat on the quarter?

Tushar Morzaria

Yes, that's right. Nothing I would call out as significant change. And your second question around business mix, profit mix, cost: income ratio, I'd say a few comments on that. One is a business like the CIB has tremendous operating leverage. As you know, banking is a scaled business in most regards, whether it's consumer banking or wholesale banking.

Certainly, with wholesale banking you can have quite powerful revenue generation over a shorter time frame that provides very powerful positive operating leverage. I think you've seen that in the first quarter.

With regards to the consumer businesses, I think profits are, probably, on a reported basis down, they are obviously down, but there are some factors there that I wouldn't point to being indicators of where the long-term profitability of those businesses are.

If you take our UK bank, for example, top line was down, but really it was down because we had a gain, last year, in the Visa preference shares, that's obviously non-recurring, we had a remediation item that's actually negative income this quarter, so underlying income is actually broadly stable. And we're pleased with that performance given the asset margin compression we're seeing year on year that I know folks like you guys track very closely. On CC&P, of course you've got some fairly meaningful top line reductions, driven from the one-off factors and the sale of the subprime portfolio, as well as the income lost from the sale of that subprime portfolio. Although the impairments, of course, would be very high there as well as currency rates that bring that top line down.

Underlining income actually in CC&P, on a constant currency basis is actually up 6% and of course we're growing that business. So, I think I wouldn't just take this quarter and extrapolate that. I think there's a different balance as a group when you look at some of these effects. The other thing I'll say is we are growing the consumer business. There is new capital going into both the UK business and the CC&P business and that's something we're really keen on developing over time.

Ed Firth

Sorry, if I look at the non-CIB business you made £600m in the first quarter last year and in this year's quarter you made £400m. I'm just trying to get a sense as to whether that's the kind of reduction we should expect for the rest of the year.

Tushar Morzaria

Ed, I'm not going to give you a profit forecast obviously and you probably wouldn't ask us for that anyway. But I'd just encourage you to look through how we think NIM will develop, look through how we see the growth of CC&P develop, look through how we see the balance sheet of the UK business develop, the rate environment. I guess what I'm saying is, we're actually quite optimistic about that business. I'm not going to give you profit guidance and I know that's not what you're looking for, but hopefully you're getting a sense from us that we like our positions in those businesses and we're looking forward to growing those businesses over time.

Jes Staley

The only thing I would add is going back to March 2016 the foundation of the strategy is to have a diversified business model. We want to have a balance between our consumer business and our wholesale business. We think that is the safest platform of which to run a scale bank like Barclays and we want to deploy our capital in a way that gives us the proper balance. Any one quarter might swing one way to another, but the overall objective is to be balanced between our consumer and wholesale businesses.

Ed Firth

I know it's just the first quarter, but, Jes, would you feel that the 74% coming from CIB is perhaps over-weighted? It normally is, I guess, in the first quarter towards the CIB and we would expect a more balanced look through the rest of the year. Is that a fair assumption?

Jes Staley

To repeat what I said before, which is in terms of new capital allocation to businesses, right now we would be putting the new capital into the UK and US consumer businesses.

Christopher Cant, Autonomous

If I could just push you on the earlier question on TNAV per share coming down – you target 13% CET1 and you're at 12.7%. So, 30bps of CET1 on your current RWAs would be about £1bn of extra TNAV at 5 pence per share. That would get you to 256p. Even allowing for the unwind of the IFRS 9 transitioning, which might be about another billion over time, I just don't see how you would get anywhere near the old greater than 281 pence per share guidance given your CET1 target. Unless you're planning to run meaningfully above 13% on CET1. I understand that rates are driving cash flow hedge impacts, which are hard to forecast quarter to quarter, but you were anticipating rate moves when setting your targets back in Q3, you were expecting some rate rise benefits to come through. So, it feels like there is some offsetting negative on the numerator in terms of just reiterating rather than improving your RoTE guidance. I get that you're stressing more than 10% for 2020, which gives you scope to do better, so it would still be the correct target. But why is it not also more than 10% in 2019, given the tax rate benefits and the roughly 10% decline in TNAV verses your expectation at Q3 stage?

Tushar Morzaria

Chris, a couple of points there. I think on the rate rise it's actually the long end of the curve that really affects the cash flow hedge reserve, rather than short rates. That's obviously trickier to forecast and no-one has a crystal ball on that. As we said before, we like rates backing up. Generally, it's a good economy because it's more profitable for us.

In terms of capital ratios, you landed precisely on 13%. We've always said, around 13%, and we'll keep you updated as to what that level needs to be. Obviously, we don't need to run any more capital than we need to, but I wouldn't necessarily just leave it at 13%. Although I take your point that that's where the returns guidance was struck off.

To the extent we generate additional capital over and above that which we need to maintain our regulatory ratios, depending on what we do with that capital that could also be accretive to both earnings and tangible book value. For example, if we were to repurchase shares, but that obviously would change our TNAV as well. The point I really wanted to make though is when we take a step back, if you just look at published consensus generation of profits for the rest of the year and into next year, net of preannounced distributions, you get a much higher tangible book value than we have today.

That's how we think about where we believe the profit generation potential of the company is. And you're right to point out, we have good tailwinds from US tax rates, possibly from interest rates and we'll see where FX rates go. So, rather than trying to be too precise on modelling this quarter in, quarter out, I hope that gives you a sense of where our ambitions and profit objectives are.

Christopher Cant

In terms of the consensus TNAV building though, I know you didn't publish a consensus TNAV with the most recent consensus, but you did publish capital. The consensus has you building capital to 13.9% in 2020, which is obviously a long way about circa 13%. I think that would be stretching the bounds of circa 13%. That doesn't really seem to square off with what you're telling us in terms of how you're calibrating your RoTE target.

Tushar Morzaria

You're right, 13.9%; I wouldn't call that around 13%. More like around 14%. But I guess I go back to, Chris, what do we do with that excess capital? If we were to reduce share count obviously TNAV will change and if we have a lower TNAV than we had when we were striking our target, we don't have any changing view of our profit potential, if anything a higher degree of confidence given the things that you mentioned. For example, the US tax rates. We expect returns to be better, but hopefully that gives you the context.

Christopher Cant

Thank you, and as a second one, could you please give us a sense of how much of the current 1 trillion of leverage exposure relates to the CIB please, and an update on how much of the additional £50bn of leverage capacity has now been deployed?

Tushar Morzaria

Yes, on the first one, let me put that in the request bucket. I understand why you'd love to see that and we'll consider that. A fair point. The £50bn of leverage is largely deployed and that's, unlike RWAs, quite a quick thing to put to work.

Christopher Cant

On the CIB leverage though - and it sort of relates to this tangible equity point - you're reporting a 13% RoTE for the CIB today and that's based on about, what was it, £20-something-bn of allocated capital? If I think about what you've said on leverage in the past, at the analyst breakfast post Q4 you said you expect the group to run with about a 5% leverage ratio. That sort of ballpark. If we say that the CIB is about £800bn of leverage capacity, which given that total assets for BB PLC are about £900bn per slide 43, feels like the right sort of ballpark. I appreciate I might not be getting that quite right, but it's the right sort of ballpark. That would imply a much higher level of allocated capital for the CIB on a leverage basis than you're using for your 13% RoTE today, no?

Tushar Morzaria

Yes, but we think of leverage, Chris, as I've mentioned in the past, very much as a back-stop, not a front-stop. We will run the company to be constrained on CET1 and that will be our primary measure of the allocation of capital. That's why we're allocating 13% CET1. We have a diversified set of businesses in Barclays International, the legal entity, and that allows us to optimise leverage capacity accordingly. We obviously have some consumers businesses which are very underleveraged but actually have a very high risk weighted asset density and a bunch of wholesale businesses, which obviously consume more leverage, but generally lower risk weighted asset density.

We tend to use leverage in the aggregate as a back-stop measure and CET1 as a front-stop measure. So, we're pretty comfortable with the way we're allocating capital and therefore striking our returns. And the Barclays International entity as a whole obviously on that measure had a comfortable double digit return..

Robin Down, HSBC

Good morning. Obviously, people have been exploring the TNAV development, but can I just explore the CET1 development from here? I guess on the numerator side, are there any one-offs that we need to be aware of going forwards? I guess you'd probably take a hit if you call the preference shares. But anything beyond that? And on the RWA side, my expectation was that BarCap RWAs would be kept broadly static with reinvestment out of the last corporate book and into the markets business. But obviously the RWAs are moving up. I think the market RWAs were up reasonably noticeably within Q1. Can you give some colour about how you see that developing? Is that just a function of the volatility we had in Q1? Will some of that come back, or do you expect further growth from here?

Tushar Morzaria

On the uses of capital, yes, we'll need to retire the US dollar preference shares. We'd have to pay for that from capital as we've done in the past. So, we may or may not choose to do that as well as any other parts of liability spectrum that we take action as we do periodically. Not so much on the numerator, but don't forget we've got the deconsolidation of Africa. That'll be accretive to the ratio.

In terms of other negative adjustments, I don't see too much on the horizon apart from discretionary with the capital around things like LME (liability management exercises). You mentioned BarCap for RWA. Just to remind folks, we don't really have a BarCap.

Robin Down

Sorry, I'm stuck in the past.

Tushar Morzaria

It's funny how names stick, but I know you mean the CIB. Think of CIB RWAs, if you look at it year on year, Q117 to Q118 they are actually about flat. If you look on sequential quarters, typically we use more RWAs in the first quarter. It's just a busier time in markets and it's a seasonally quieter time in markets at the end of the year. As Jes has mentioned a number of times, CIB RWAs and capital will stay where it is, but do expect the consumer businesses to be picking up over time.

Robin Down

Should we expect the RWAs to come back then a touch in the markets business in Q2?

Tushar Morzaria

I don't want to give quarter by quarter guidance, but broadly stable on a year basis. Definitely no net growth if you look on a trend basis.

Tom Rayner, Exane BNP Paribas

I just wanted to come back really to the CIB and comments, Jes, you made about the cost: income ratio at 64% leaves you competitive, gives you the scale to generate the returns you need to make. Clearly Q1 is a strong revenue quarter, certainly for the IB part of CIB and there is very much a mix. If you actually disclosed the costs, I think we'd be able to see quite a difference between the cost: income between the corporate and the IB. So, I'm just trying to get a sense of how happy you are with the progress you've made in dealing with the costs, controlling the costs in what was the stand-alone Investment Bank part of the business.

And then as a supplementary, just on the revenue. Looking through your commentary, it looks as if the main positive verses, perhaps, expectations in Q1 was the equity derivatives driven by better higher volatility. I think other Investment Banks have suggested that was really a January/February phenomenon. By March, some of that had already unwound and I just wondered if that's something that you also saw. That the real driver there had tailed away by the end of Q1. Thank you.

Jes Staley

Let me make a couple of comments. One thing that I feel very good about is we took quite a significant economic charge at the end of 2016, in order that we could align our comp accrual with our revenues. I think given the volatility of a CIB, having the ability to move your pool of compensation with your pool of revenue, the link is very important and we did that in the first quarter. So, we had a very nice revenue print in the CIB and we reflected that in the cost line, and I think that reinforces our comfort with the cost: income ratio that we see in that business.

The other thing I would add is, we also stood up in the first quarter our service company, which we call now Barclays Execution Services, and of the 82,000 employees of the bank now 55,000 are in that service company where we run processes through what we call transaction cycles across the entire bank. So, how we manage data is managed in Barclays Execution Services across the consumer bank, the card business, the private bank, the wealth business, the corporate bank and the Investment Bank. Running your core processes across the bank in a single entity allows you to extract very significant efficiencies, and we look to extract those efficiencies now and in the next couple of years. It is what in fact is driving to that cost target of £13.6-13.9bn in 2019. So, we've got greater correlation between comp and revenue. We also have the efficiencies coming out of that service company, which we think is a unique organisational model amongst major banks and I'm going to leave it at that.

Tom Rayner

Sorry, Tushar, just on the revenue driver, the equity derivatives volatility issue?

Tushar Morzaria

I think as Jes mentioned earlier on in the call, there was more volatility in markets in February and that's helpful to our business. I think Jes has mentioned earlier in the call that we had a sort of steady performance across all three months, rather than one month making the quarter. Hopefully that gives you the context. Obviously not talking about Q2 trading, so I won't say any more than that, but hopefully that's helpful.