Barclays PLC H1 2021 Results

28 July 2021

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

Joseph Dickerson, Jefferies

A good set of results here. Just on the liquidity pool, which is now I think at £291bn, up about 9% on the first half, you've got three quarters of that sitting in cash and deposits with central banks. Do you see an opportunity to diversify that book a little bit more into the bond side and other securities to try to get a yield pick-up because it must be quite a drag for you? That's question number one.

The second question is on your cost: income ratio aspiration of 60% over time. How would you define over time? I think consensus is still above that level in 2022 and 2023, so I was just wondering in a ballpark range what year you might expect to achieve that on your plans. Thanks.

Tushar Morzaria, Group Finance Director

Why don't I take both of them and Jes can add some comments afterwards as well. On the liquidity pool, we do look at this pretty closely. A lot of the increase in the liquidity pool is of course from our deposit base. Deposits are about £0.5tn at Barclays. It is incredible how much money has been left with us. Obviously it is a very, very cheap level of deposits and central bank rates are obviously well above that, so I wouldn't say it's a drag.

We do look at ways of optimising the performance and we absolutely do consider a range of securities and other high quality collateral that we operate from time to time, and that's actually been a reasonable story for us. Our treasury team that manages liquidity for us has done actually a really good job in generating a decent yield on that money for us.

On your second question on cost: income ratio, first and foremost, returns are the most important and so we're pleased that we can generate decent returns. Now, the cost: income ratio is as much of an output of where the income level will be relative to cost as much as an input. What I mean by that is, when I look at the mix of the businesses, at the moment you've got the consumer businesses that have a cost: income ratio in the 70%+ region.

That's obviously higher than we would expect them to be and that's as much a function of their income lines. We've talked about reduction in unsecured balances and obviously a lower rate environment. We're pretty positive on the consumer outlook. Things do look like they're recovering. You've seen our mortgage balances pick up extremely nicely. Our spend levels are back to pre-COVID levels. You've seen a tick up in US card balances, not interest paying balances yet, but that's all positive indicators.

So I think as you see the income levels continue to pick up in the consumer businesses, you'll naturally see that cost: income ratio there decline and of course in the CIB cost controls are very important and you can see we're operating in the low 50s.

We won't put a time limit on the cost: income ratio because there's so many things that go into that. But I think for us the way we've always thought about it is a 10% return for the group, which we ought to do this year, but hopefully we'll do every year when it settles down in a post-pandemic environment, it is almost likely to be accompanied by somewhere around a 60% cost: income ratio and that's just given the mix of the businesses. Jes, do you want to add any other comments on that?

Jes Staley, Group Chief Executive

Just highlight that a lot of the cost initiatives and structural cost actions are directed to the consumer businesses as we move to a more digital platform away from branches, etc. And as spending recovers and consumers recover, I think you'll see the revenues grow in our consumer business and well outpace costs. So I think as Tushar said, we don't want to give an exact date, but I think consumer business has got a pretty good runway to help us get to that cost: income ratio. That being said, what's most important for us is to deliver that 10% return on tangible equity.

Omar Keenan, Credit Suisse

I just wanted to ask a follow-up on Joe's cost question. So you're guiding to base costs excluding performance costs being around £12bn and I appreciate there's a cost: income target going forward, but I wonder whether you could just help us perhaps think about that base cost in absolute terms perhaps into 2022. In particular, as I think about the Barclays UK structural cost actions, perhaps you could give us just a little bit more colour as to what the annual cost saving potential could look like there from next year or 2023.

My second question is just on the consumer businesses. So you mentioned that spending is recovering, which is a really good sign, but interest paying balances not yet. I was wondering whether you could give us some colour around what you're seeing on consumer behaviour. Is it more payment rates are elevated to do with savings balances or is it particular types of spending that haven't yet recovered and what it might tell you about when those balances should start growing.

Tushar Morzaria, Group Finance Director

I'll answer both of them and Jes will add some comments after me. In terms of base costs and where we go from here, I guess a few things on this. First and foremost, cost discipline is important to us. It's important to us because we want to grow our top line and we want to create the capacity to allow investment to lean in to the beginning of a cycle, so discipline around our efficiency measures and productivity measures are really important.

You've seen this morning we've guided to base costs for this year being in the region of £12bn subject to the usual caveats around currency rates and what have you. I think also when I look at consensus for this year, our published consensus of around £14.4bn, that probably feels about right to me. That's when I look at all of the other components there, where I think we may end up on performance costs and the balance of structural cost actions that we'd like to do, so hopefully that gives you some sense of how this year will shape up.

In terms of next year, for base costs, I think as we sit here now, I think a reasonable planning assumption is a similar level for base costs YoY, so about £12bn. I think that will give us the right framework to continue to create capacity, to continue to invest in some of the more exciting growth opportunities that we have. Jes talked about payments. We're really excited about US cards. There are parts of the investment bank we're continuing to invest in as well, so that all feels about right to us.

In terms of structural cost actions, you talked about our UK bank. Yes, that's something we're looking at very closely. Obviously where we have opportunities to accelerate the transformation of the UK bank, we will potentially take advantage of them and we'll call them out as we go along and the whole objective function there is to absolutely lower our cost base in absolute terms subsequently. So a good example would be, say, this isn't to do with the UK bank, but the whole idea of the property write-offs that we took in Q221.

We'll save about a £50m annualised run rate from 2023 onwards and that just gives you a sense of the way we think about that. Property doesn't tend to have the best paybacks, only because the lease lengths are quite long, but the numbers can add up over time and we think about a similar thing for BUK.

Why don't I switch gears and quickly cover some of the consumer patterns and I'll hand over to Jes. In terms of spend, levels are definitely pretty good at the moment as we see it both in the US and in the UK. It feels like they're back to pre-pandemic levels. In terms of when the spend levels convert to card balances, I think in the UK you want to see more and more discretionary spend. Travel and holiday is a big factor. Obviously this year is a little bit unclear with various changes to travel restrictions and staycations and what have you, but I'd say the lead indicators feel good.

It's just very hard to forecast with a degree of precision when you expect the spend levels to convert into revolving balances. We did see deposits again tick up on the consumer side in Q221, so it's rational behaviour. But as these spend levels continue, I think it's an inevitability that they'll convert into revolving balances. In the US probably a bit sooner. We've got the vacation season. We've got back to school. We've got Thanksgiving. We've got Christmas. These are typically good areas for non-discretionary spend.

I look at account openings in US cards and they're doing really well. Again, the levels are ahead of where we would expect them to be and the good news is we're seeing balances reform there. They're full payer balances at the moment, but nonetheless it's a very good lead indicator. Jes, anything you want to add on either costs or consumer spending?

Jes Staley, Group Chief Executive

Yes, I might look at it this way. I think on the US side, the indications that we have would lead you to believe, as we do, that the US consumer is returning to their historic use of credit cards and receivables. The credit card industry does have the characteristics of interchange fees in the US, as well as the robust reward programmes, and we're seeing a much more rapid recovery in balances there. Also, you may have noticed our own initiatives, whether it's the renewal of JetBlue or the work that we've done with a couple of major retailers, so I think you should look forward to the US card business recovering to historic levels in terms of activity.

In the UK I think it's a slightly different story. I think the UK consumer has demonstrated a little bit more focus on balance sheet, depending on income level, and in the face of that, we do think that there's a degree of a shift from unsecured borrowing to secured borrowing. Our credit card receivables are off some £3bn YoY. Our mortgage portfolio was up £3bn just in the second quarter alone, so that movement from unsecured to secured I think is real.

Now, on top of that I think you'll see increased activity in terms of point of sale financing, as Tushar alluded to, and the work that we're doing between our merchant acquiring businesses, our small business banking businesses and our consumers in terms of our technology platform I think positions us extremely well to capture that point of sale financing as it grows.

Rohith Chandra-Rajan, Bank of America

I had a couple as well, please. The first one was on capital. So I guess when you think about capital distributions in addition to the dividend, you've indicated a CET1 ratio above the target level at full year this year. But how comfortable would you be moving into the 13-14% target range as we hopefully get more clarity on the economic recovery I guess late this year, early next year? So that's the first one.

And the second one, sorry, coming back to costs and this time really on the structural cost actions. So slide 16 gives an indication of what you expect for the second half of the year. I'm just wondering how we should think about those structural cost actions in terms of the run rate beyond 2021.

Tushar Morzaria, Group Finance Director

Why don't I kick off and I'll ask Jes to add a couple of comments after me. The target range is 13% to 14% so you would expect at some point for us to be comfortable operating into that target range. We said for the remainder of this year we would expect to be comfortably above there, so a pretty strong capital position and plenty of capacity to continue distributions.

There's probably two real reasons for that. One is, as you know and we've called out, there are some technical headwinds that come into next year. You've got software amortisation reversals, you've got transitional relief on IFRS9, so a bunch of bits and pieces that you'll be aware of. And on top of that we'll see how the adjustment to the post-pandemic economy fares over the next handful of quarters and you'd expect us to be prudent there, but it's a pretty decent capital position and plenty of capacity to continue to get capital into shareholders' hands, which is a priority for us.

In terms of structural cost actions and run rate from this point on, I think we'll call these out as we go along. Think of these as episodic notable items, if you like, where we're doing something very specific, as with the real estate exit we talk about in Q221. I think for the rest of the year we would expect probably a skew towards our UK bank where we'd look for opportunities to maybe accelerate some of the transformation that we'd like to do there. That will definitely yield a run rate benefit. The best guidance I can give you at the moment is we talked about our base costs of about £12bn this year subject to the usual currency rate caveat.

I think that's a decent planning assumption for next year and inside there will be continuing efficiency programs. So, if you like, our run the bank costs are going to be lower than that, but we'd utilise that capacity to continue to lean into some of our growth areas, be it on transactional banking, our mortgage book, which is growing really nicely, we like payments a lot, etc. But it gives you a sense of what next year's cost shape will look like.

Jes Staley, Group Chief Executive

Just to add, between the £700m buyback already executed in April and now the £500m announced, so £1.2bn of buybacks. Barclays hasn't engaged in a buyback programme in many, many years so this is a new thing and I don't think it's a one-off. With the level of profitability that we're now generating and the capital levels that we have, if we have shareholders that remain willing to sell stock at such a discounted book value, we're happy to buy it.

Jason Napier, UBS

The first one I guess ties together net interest margin outlook, consumer behaviour and the hedge update. I was interested to read that the skew on larger hedge notional was mostly involved with BI balances. In BUK there's £50bn more deposits than at the end of 2019, and I just wondered what your assessment around those balance are. The fact that it's not included in a bigger notional, does that mean you're expecting balances to fall and is a decline in those deposits a prerequisite for better behaviour on the interest bearing part of the unsecured book there?

And then the second question, and I think, Jes, you've probably already answered this, but I want to have a crack at it anyway. On my numbers at least, Barclays is the cheapest stock in earnings that we cover in Europe and I just wondered how management and the Board see that, whether it's an issue, whether it says anything about the strategy. There is in some quarters calls for banks to sell valuable assets. I don't particularly subscribe to that view myself, but I wonder whether the valuation of the business says anything about whether the firm becomes a target, whether you ought to be doing things around mix of business and so on. Thanks very much.

Tushar Morzaria, Group Finance Director

I'll ask Jes to cover the second question around valuation and I'll just cover the first. In terms of net interest margin, the hedge notional that we talked about, actually we have been increasing the size of our hedges over the course of last year and into this year. You'll see that from the disclosures. It's been steadily increasing every quarter rather than a big step up. That's actually been mostly in the UK bank, those increases. Where we haven't actually done much is on the corporate side of the business.

That £25bn that we talked about of potential capacity is a mix of UK and corporate, just skewed more towards corporate. Obviously were we to do that, it'd still be possibly accretive to UK NIM, but certainly accretive to corporate NIM. The other thing is that you'll see from our disclosures and our comments early this morning, we have slightly lengthened the duration of hedges as well. That's a good thing for us to do given the steepening of the curve that we've seen, although it's flattened recently. But as we were lengthening, the curve was steepening nicely.

In terms of interest earning lending balances, I don't think we will necessarily expect that deposits would start running down as a prerequisite for interest earning balances to increase. But, nonetheless, there's no real stress in our books. Delinquencies continues to tick down. Credit conditions remain pretty benign across corporate and consumer, so it's got a benefit on the impairment line that we shouldn't ignore. Run rate impairments obviously are running much lower than they were pre-crisis.

But I think the most important thing for IEL or interest earning lending balance formation is just discretionary spend and I think all the lead indicators look okay there. It's just that none of us really know for certain when they will move into revolving balances and of course, of that discretionary spend, travel is such an important item and the summer months will be important for that I think. Jes, shall I hand over to you for valuation?

Jes Staley, Group Chief Executive

First, the board and management are keenly focused on our stock price and the market value of the bank. It's important for our shareholders obviously, therefore it's important to the board and to management. I'd just step back a little bit. Six years ago we embarked on a pretty extensive restructuring of the bank. We reduced the headcount of Barclays over a year and a half period by 55,000 people.

Things like exiting retail banking from France to Italy to Spain, to getting out of the Africa footprint that we had, to reducing the investment banking footprint much more to the developed markets as opposed to the emerging markets. It was a very extensive restructuring. That is behind us and the bank has a strategy that we set for ourselves in 2016 and we're going to stick with that and it is now delivering. You see it in the profit levels that we're delivering now and the level of capital we've got and now we're beginning to return the excess capital that the bank is beginning to generate.

We also, as we were doing the restructuring, had to go through things like PPI charges which were extensive, litigation around capital raises with Qatar, etc. All of that is also behind us. So we have the profitability target of the 10% RoTE. I think you're right, if you look at the execution or profitability today versus other competitors in Europe, I think there's a lot of room to move in the stock. It has moved a lot over the last 12-month period, but we think there's a lot of runway in front us if we keep running the bank as profitably as we are and it will land where it needs to land.

Chris Cant, Autonomous

Two, please. The first one on PMAs. The slide talks about PMA adjustments developing over the next few quarters as you learn more about macro. How should we think about that? Obviously it's a very big number. How much conceptually in the PMA is because you don't think the models are working correctly in the current environment versus how much is the standard deviation around the macro inputs to the models? Because I guess on the latter, as we see the end of furlough in Q321 you'll know one way or the other. There's a range of possible macro outcomes. It feels like it has to be narrowing as things like government support comes off, so how should we think about that developing? Really just interested in any colour you can give us there.

And then on costs, particularly in the CIB, so if I've backed it out correctly, basically all of the performance top up in the first half was in Q121. I think it was a very modest amount in Q221 and historically you've always said that you think about accruing costs in CIB evenly during the year based on your view of where performance is going to be so you don't generally see this cost seasonality.

I think the last two times you had big drops in Q2 costs versus Q1 was back in 2016/17, you then had very chunky Q4 cost prints, so is there a risk of that this year? Has your view on revenues changed, meaning that your Q1 performance accrual was wrong? How should we think about that? Because I guess I'm trying to get a sense of how you are thinking about managing the performance or accruing the performance costs. The cost: income ratio, 53% for the first half seems very, very low, I guess, and I'm just trying to think about the sustainability of that. Thank you.

Tushar Morzaria, Group Finance Director

I'll cover PMAs and just touch on the cost shape for the CIB and Jes may want to add a comment on the CIB costs. The PMAs, the way we think about this is, as you've seen from our disclosures, we have about £2bn in management overlays that are very specifically to do with the difficulties that the models have in correctly forecasting how consumers may be impacted by the tapering of various support measures, both in the UK and in the US.

I think you're right, Chris, to point out that the tapering has begun, literally only just begun. It's always hard to put an exact timeframe on it, but probably into the earlier part of next year we'll have a better idea what this means to corporations and customers. Our view is that the reason we're holding onto those overlays is because we think we need them. We think that there will be some elevated levels of defaults that we would expect. Were that to happen, then we would just, if you like, digest that PMA and it will get released on a P&L neutral basis.

Of course if it's a more smoother adjustment, and at the moment conditions look pretty benign, we're not seeing really any stress indicators in our books, then as our coverage levels perhaps get closer to pre-pandemic levels there may be some P&L benefit that will come through. But it will be a number of quarters. I don't think you'll see it in any one period necessarily and you've got to remember it's across consumers and vulnerable sectors as a corporate matter as well.

On CIB costs, well, I hope you caught from one of the earlier questions, Chris, that I think consensus for this year's overall costs feels about right to me, so that gives you a sense of, if you like, the total aggregate. CIB costs, typically a normal shape in the CIB is that the performance is stronger in the first part of the year and not as strong in the second part of the year, so our compensation accruals ought to be reflective of that.

We obviously make the decisions on compensation at the end of the year when we've got all the information in front of us, what the returns are, all the various other dynamics that go along with that. But I think the £14.4bn for the full year across everything we've got feels about right, so I'm not sure there's more colour I would give on that. But, Jes, is there anything you'd want to add?

Jes Staley, Group Chief Executive

One way to think about it or the way I think about it is in the consumer businesses your revenues have a lower level of volatility than in an investment bank, but your cost base also has a lower level of volatility. In many ways, your costs in a consumer business are more fixed. There's operating leverage to that and as we see the US and UK consumer businesses recover at the end of this year and then into next year, I think you'll see a pretty significant improvement in the cost: income ratio in the consumer businesses.

In the wholesale businesses, I think your revenues do have higher volatility, but your cost line also because the variable compensation gives you greater variability to your cost line. We have demonstrated over the last number of years, and it's well digested inside of the bank, that this rule of variable compensation at Barclays will start with a reflection of the profitability of the wholesale business overall. Profitability goes up, accrual goes up. Profitability comes under pressure, we will try to secure profitability by taking down the accrual of variable compensation.

So I would not straight line the variable compensation we identified in the first half of this year. If we see revenues slack off some, you'll see the accruals slack off.

Ed Firth, KBW

I have two questions. The first one, sorry, about costs again, but I guess you've given us this new disclosure so we can all get very excited forecasting it going forward. But from the tone of what you're saying it sounds to me like a good performance for Barclays going forward is to broadly keep your £12bn cost flat. The structural cost actions are going to be there or thereabouts where they are this year because you've got a lot of stuff to do in the UK, and the performance stuff is going to broadly go with revenue. Is that a fair way of looking at it going forward? I suppose that's my first question.

And then my second question was just going back on provisions and coverage. I'm not sure I quite understand how it works. Because I think you highlight a £1.9bn management override in your provisioning, but if I took that out your coverage ratio [on the unsecured lending portfolios] would be down in the low sixes, which is way below the coverage you had even before the crisis. So how should we think about that? As we look to a normal world, should we be looking at that management override as something that can come out or should we be looking at your coverage ratio, which I think used to be in the [low eights]. Is that the sort of level that we should be thinking of as a future level?

Tushar Morzaria, Group Finance Director

Why don't I pick up both of them. On the costs, let me just paraphrase I think what you said to make sure that the guidance I'm giving is just in my words rather than yours. I think the £12bn base cost for this year, plus or minus FX rates and what have you, that feels about right to us and is a decent planning assumption into next year. Don't forget that base costs do include a lot of the investment programmes that we've got going on, so the J-curve, restocking interest earning balances in the unsecured book and growing our payments franchise, and all those good things. There will also be efficiency programmes that will be on the other side of that to absorb the investment spend.

The structural cost actions for this year, I think you're right to say they'll probably be more skewed towards the UK bank, and we'll tell you precisely what's going on there as we go through the year. And then performance costs. You said revenue, I'll just be a bit more cautious there, and Jes will probably want to emphasise this as well. Returns are important to us, we anchor them in returns to try and strike the right balance between shareholders and employee rewards.

And it's not a straightforward formula of course, there's a whole bunch of things we look at. We look at what businesses generated those returns, what is the pay mix for those businesses, what is the competitive environment, which areas are we investing in. All those kind of things. But I suppose the starting point is probably anchored in returns.

On provisions and coverage, we think we need, if you like, those management overlays. We think they'll be digested as the economy adapts to the post pandemic environment and the government schemes are removed. So we'll see what's required and what isn't.

I think if you look like for like, the books are probably much less riskier in some ways than they were pre-pandemic. Why is that? Well, we've got lower balances for a start, so you've got lower unsecured balance sheets in the riskier part of the book. Much higher mortgage balances but those are very low risk. And consumers have been de-leveraging, you can just see that from the deposit growth on the balance sheet. So if you like on a unit of risk basis, it's a much less riskier book than we had going into pandemic, which was don't expect at the back end of a super long consumer credit cycle.

So we don't know what coverage levels we'll need to have, Ed, obviously. We'll have to wait and see what the environment is around that time. But I wouldn't lose sight of it's a different shaped book than we had going into the crisis.

Ed Firth, KBW

Can I just come back on the costs? Because there was a lot of discussion in Q121 and there's still a lot of discussion if I look at the range of consensus about whether costs would go down going forward and that this structural cost action was a one off. From what you're saying it doesn't sound like that's obvious, let's put it that way. Is that a fair comment?

Tushar Morzaria, Group Finance Director

Well, the best guidance I can give you is that the base costs, a good planning assumption for next year is roughly flat YoY. The structural cost actions, the way we think about them is we don't think of them as run rate. This isn't something we're going to be doing quite literally for the next umpteen years otherwise they'd be base costs. These are episodic, specific in nature, with a very specific objective just like we've had in the real estate charge off. And so we'll call them out and explain what's going on there. But our base costs, which is really what the bank is running at, as I say, planning assumption is £12bn into next year.

Guy Stebbings, Exane BNP Paribas

Firstly on Barclays UK NIM guidance for the top end of the range, simple maths suggests we're ending 2021 at or even below 245 basis points, unless the entire step down comes in [Q321]. I'm just wondering if you can give us a bit of context around that ten basis points or so move, perhaps quantify or give relative importance to the drivers between the hedge headwind, mortgage rate compression and mix effects, just so we can think about whether there's upside to that number and how that might evolve into 2022.

And then on consumer, thanks for the commentary so far. Just wondered if we could circle back on UK balances and the reduction we saw in Q221 in gross balances. In terms of any monthly trends, was the majority of that coming in in April, given spend data subsequently has improved and trust data looks like it's improved in May and June.

And in the US, I appreciate all the points you're making around the growth coming from less interest paying balances, but is there any reason why balances in absolute terms should be slowing versus the growth we saw in Q221? And then we've got the growth in partnerships to come on board as well. Just strikes me that £31bn of balances in CC&P

could be £4bn or £5bn or so higher in 12 months time, given that underlying growth and the partnerships. Or am I being a bit too optimistic on timing there?

Tushar Morzaria, Group Finance Director

Why don't I handle both of them. In terms of UK NIM, our assumptions are as follows. We expect to see mortgage growth but at slightly tighter margins than we've had in the first half. It's been a really robust first six months of mortgages, a record production for us, and our flow has been above our stock of market share and at slightly wider margins than we anticipated, so that's very good. We're actually still pretty optimistic on the growth in mortgages, but expect the margins to be a bit tighter than we saw in the first half. So we may be correct there, we may not be.

On unsecured balances, we're not expecting any interest earning balance growth. So if we do see growth, I hope we do, but we're not forecasting it. If we do, that will obviously be quite accretive to NIM. And the third thing, on the hedge, we talked about the £25bn or so of capacity that we have. It's skewed towards the corporate business, but to the extent we utilise that it will be partially accretive in the UK bank as well, albeit mostly skewed towards the corporate bank. And of course the dynamics of the yield curve and the slight extension of duration that we've put on the hedges as well.

So hopefully that gives you the building blocks. Take your own view of what you think about our assumptions on UK mortgages, on secured lending and hedge notional and duration. But as for our view, no unsecured growth, continued mortgage growth but at tighter margins and no forecasted changes in hedge notional or yield curve dynamics. We think we'd be at the top end of NIM per our guidance, but you can form your own view with those building blocks hopefully.

In terms of unsecured balances, we've made a comment within our results announcement. But you'll notice our commentary there says it's stabilised. So, yes, the reductions were in the earlier part of the quarter and it stabilised as the quarter went further on.

Jes Staley, Group Chief Executive

And just one thing to add on the US card side. There's a dynamic for that business which we like a lot, which is our card business is driven by our corporate partnerships which we are adding to, and you're right to identify that we're going to be growing that portfolio both organically but also by agreeing to new partnerships in the US. What that does is it levers the corporate and investment banking relationships that we have in the US and connects it to our ability to manage, we think effectively, consumer credit and manage the reward programmes for these large partnership cards.

So it's got a nice synergy and the corporations definitely look at both their wholesale relationships and those that would provide something like a co-brand card, and therefore it sits very well within our portfolio. And our market share in the partnership business or co-brand business in the US we think gives us the scale to be quite competitive.

Adam Terelak, Mediobanca

I had a follow up on costs and then one on CC&P. On the cost side, sorry for labouring the point, but in the £12bn ongoing, could you give us a sense of the gross moving parts in terms of savings against reinvestment? And you talked quite positively about growth opportunities. Why not spend more if there are so many upsides to revenues out there?

And then on CC&P, firstly just the gain in the Private Bank. Could you size that for us? And then digging into the NII, clearly it's down 8% QoQ and you've mentioned interest earning assets, average interest earning assets being down, but is there some of the J-curve effect spend hidden in the NII or is that in fees? I just want to understand the moving parts in terms of the revenue mix in CC&P this quarter. Thank you.

Tushar Morzaria, Group Finance Director

Why don't I take them. Yes, the growth, if you like, capacity generation and investment spend. I haven't given guidance on that, so I won't call it out, but it's meaningful efficiency saves that we're putting back into investing back into the company. In terms of why don't we spend more, I think with all of these things we keep it under review. We have a high conviction in the income environment in the outer years, that's why we're spending more in some ways on a constant currency basis this year than we did last year. That's a statement of our conviction that now is the time to invest.

We want to add new partnerships to our cards business, which I'll come on to, we want to do the infill stuff on our investment banking business, whether it's the prime business or Equity Capital Markets, new sector coverage, securitised products. We like the payments business a lot, we like transactional banking, particularly in Europe. So there are lots of things that we are investing in because of the conviction we have on revenues, and on a constant currency basis we are spending more this year than we did last year. But we think that balance is about right going into next year, but we'll keep it under review, depending on how the macro environment adapts for us.

In terms of your specific questions on Consumer Cards and Payments, the Private Bank gain that you see YoY, you may have heard it in my scripted comments, there was a property sale so that accounted for part of that. In terms of NIM, the average assets although they were down in the quarter they did end up at the period end. So what that tells you is that card balances in the US have stabilised and hopefully beginning to grow.

We've got the American Retirees partnership coming online at the back end of the third quarter, so we should expect to see a little bit of growth there. You're then into the spending season in the fourth quarter with Thanksgiving and Christmas and what have you. And we've got account openings that are actually doing really, really well at the moment. So we hope to see balance formation in the latter part of this year that will be accretive, but we'll see where we go from there.

Adam Terelak, Mediobanca

I was asking whether there's any cost associated with the marketing and ramping up of card balances, in terms of the J-curve that is revenue contra, and whether that was material in the quarter or not.

Tushar Morzaria, Group Finance Director

Yes, there is. You get the J-curve effect, some of it is contra revenue, some of it is in costs and of course as we open new cards and people have a line, there will be an impairment and a slight capital pick up. So the J-curve is across all lines of the P&L but, yes, there is an income component as well. And if you want to get into the specifics of the accounting geography, probably not one for this call, you can get Investor Relations to get the exact geography right for your model. Someone in Chris's team in IR could probably help you with that.

Jes Staley, Group Chief Executive

And I guess one way to think about this is in 2015, 2016, 2017 we executed the restructuring that we talked about. In 2018 we set forth a profitability target for the bank of 10% or above 10%. And we spent the last couple of years being asked questions by this community and others, how do you get to that 10% ROTE? That question seems to have been moved aside, in part because we have invested in driving revenues, and as we said we're quite confident that we will deliver that 10% ROTE this year and have the strategy and the cost controls in place to consistently return that level of profitability.

Jonathan Pierce, Numis

Got two questions. One on these bonds that got redeemed in June. I think they were issued out of Barclays Bank plc, but is there any benefit to the UK bank? Because if there is, again the margin guidance for the second half looks slightly odd, but maybe you could tell us where the benefits of those bond redemptions sit, because they're obviously at some pretty big coupons? Where are the benefits of that coming across the divisions.

The second question is a broader question on distributions, because the buybacks this year along with, let's call it 6p dividend for the full year, you will have distributed around about £2bn for 2021. Is there any reason to believe that that level of distribution is not sustainable or possibly could even move up a leg in 2022? Because everything you're telling us here, there's the software gains obviously to come out, but the pension contributions drop next year, the gap between the fully loaded and the transitional CET1 ratio is only about 40 basis points now. You also appear to have taken a lot more RWA pro cyclicality than the other banks, so one would hope there isn't too much more of that to come. The scope for increased distributions next year seems very much there. Would you disagree with that? And just to finish on that question, if you can give us a sense as to how the shape of these distributions will look moving forwards, because the dividend you're pointing to for this year is a very low proportion of the earnings. Would that be expected to step up next year? Thank you.

Tushar Morzaria, Group Finance Director

I'll get Jes to talk a bit more about the distributions, why don't I cover the other points quickly. The bond redemptions that you're referring to, they're Barclays Bank so that's where most of the impact will be, so I think that's the gist of your question. Spreads are pretty tight and the timing of the redemptions is obviously helpful for us as a tailwind going into next year and beyond.

On distribution, in terms of capacity. This year is a slightly unusual year because EPS has got a component of it which are these provision releases which aren't necessarily at this stage capital generative, although they may be in subsequent periods as you'll be very familiar with. I think though, could we repeat these levels of distributions into subsequent years? The way we think about it is capital returned to shareholders is really important for us as a Board and a management team. It's important we do that in a measured and appropriate way.

And I think the quantum of distributions that you're seeing from us over the course of this year is a good example of our ability to do that on a sustainable basis, and that's why we're doing it in a prudent and measured way.

Jes Staley, Group Chief Executive

We are directing towards a 6p dividend for the year. That is both a function of the profitability of the bank but also our intention to get back on a path of managing a progressive dividend for our shareholders. And we know that income flow, particularly for our retail investors, is very important. On the other side, when you're trading at 50% to 60% of book value the economics just pushes you towards a buyback, which we are executing.

Robin Down, HSBC

Firstly can I say thank you for the extra disclosure on structural hedges, giving the figures to the nearest £m rather than the nearest £0.1bn, which is quite helpful. But obviously looking at that, that suggests that there isn't much by the way of structural hedge pressure anticipated in the second half, so that brings me back round to Jonathan's question and the question earlier about the Barclays UK margin.

I hear you in terms of the mix change towards mortgages and away from consumer credit, but I think what we're all going to find when we do the basic modelling is that we can't get nine or ten basis points of margin decline in the second half just from doing that. So a couple of questions. Firstly, are you assuming anything in there on the ESHLA portfolio? I think the decline slightly flatters the margins in perhaps Q121 and perhaps a little bit in Q221. But are you assuming some bounce back in values there?

And I guess the second question then really is just more broadly, when you say you're going to be at the top of a 240 to 250 basis point range. 251, 252, would that be within your description of being at the top end? Because I'm struggling, I think a lot of people on this call are struggling, to see how you get to just 250 having done 254, 255 in the first half. So any added colour would be greatly appreciated.

Tushar Morzaria, Group Finance Director

In direct response to the question about ESHLA, no we're not making any real assumptions around that. It's got a degree of variability to it and we don't try and get too clever and try and forecast that. So it will bob around a bit but nothing in our forecast that drives it one way or the other. In terms of NIM for the remainder of the year, the building blocks for us is mortgages continue to grow well but at tighter margins. We don't see unsecured balances growing. We haven't included any expansion of hedge or yield curve dynamics or anything else into that.

I think if you're wondering what would make NIM better, I guess better mortgage margin would be one thing. The mix being slightly different, so mortgages grow but unsecured balances grow as well would definitely make a difference. If we were to do something different on the size of the hedge notionals then that tends to have more of a grinding effect, that doesn't happen instantaneously but if the yield curve's dynamic changes that could feed through over the next couple of quarters.

When we say top of the range I try not to give a precise number really because there are all these moving parts and I think you're doing the right thing, Robin, which is you know what these building blocks are and you'll have your own view as to whether we're being optimistic or cautious in our outlook. But I'd rather not guide you to the nearest basis point, I'd rather just give you the building blocks, give you a sense of what we think are those building blocks, and then obviously you'll form your own views around our optimism or cautious approach. But not much more to add than that, I think, Robin.

Robin Down, HSBC

It just strikes me, and I suspect it strikes a number of other callers, as being quite a cautious estimate at this point. But I'll leave it at that.

Martin Leitgeb, Goldman Sachs

One on UK cards and one on your investment bank. On cards, just looking at the data it seems like Barclays lost a little bit of market share in the second quarter. I think the data we have from the Bank of England is broadly stable as of May and there's a slight decline for Barclays. Maybe I'm reading too much into nuances here. But I was just wondering, comments at the turn of the year were that you are ready to lean into the recovery, which could be read as retaking some of the market share in the UK. Does that just take time to manifest itself, or maybe could you talk a little bit about what you're doing and how quickly we should expect maybe this ramp up in UK to come?

And secondly, on the investment bank, I was just wondering if you could comment a bit more on the outlook for investment banking revenues. I think some of the comments earlier were that the pipeline on the banking side is even stronger now and you're calling out share gains in the second quarter. Has the outlook here potentially for share gains again improved over the last few months? And how should we think about the broader trajectory? Thank you.

Tushar Morzaria, Group Finance Director

Why don't I take the UK cards bit and I'll ask Jes to talk about the IB outlook. Yes, we like UK risk a lot and we do want to lean into UK risk so to speak. You're seeing us express that quite markedly in mortgages at the moment, where our market share or flow is well above our share of stock. UK cards we like a lot as well. It does take time. I would caution anyone to look at these short term surveys and data. There's all sorts of odd things that go on there, you've got zero balance transfers, you've got transactors that could build balances but you don't earn interest on. So I'd look at it on a rolling basis.

You're right though, Martin, we have ceded market share leading up to the pandemic and that was, as you're well aware, our more cautious stance on the back of Brexit and some of the disruptions we expected there. But we're keen on growing that business and we expect to do so over time, definitely. Jes, you want to touch on IB?

Jes Staley, Group Chief Executive

Just to echo what Tushar just said about UK cards. I think, appropriately, at the outset of the pandemic we did take a conservative approach around unsecured credit and I think you see it in the impairment numbers that are happening now. And now that the recovery I think seems to be well on its way we are much more comfortable in leaning into, as Tushar said, UK, both secured and unsecured credit.

In terms of the investment banking outlook on the revenue side, you're right on the banking pipeline, i.e. M&A, DCM and ECM continues to be quite strong and building for us. That's encouraging, we did see some market share gains. But we want to do the right business with the right clients for the right reasons. We feel comfortable about our position in the investment banking space.

And then as I said in my remarks, I think to a certain extent what is less appreciated is whilst there is volatility in markets revenue driven by volatility in the markets themselves, underlying the capital markets are growing at a very fast clip. So 53% for the last number of years. And that is because in our view the regulatory framework of the large financial systems today rely for financing less on bank balance sheets and more on the end capital markets. And the growth of capital markets is going to feed into our trading of securities and derivatives around that market, and so we expect with some volatility the trajectory will continue to be growth.

Tushar Morzaria, Group Finance Director

Thank you. We'll wrap the call up there. Thanks for everybody joining us and hopefully we'll get a chance to speak to many of you as we do calls and what have you thereafter.

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