

Business

Banks are shaping up but they're not out of the woods

By Ian Withers

OVER the past fortnight the four largest UK banks – RBS, Lloyds, Barclays and HSBC – have each posted quarterly figures that, while mixed, were devoid of the big, bad surprises investors have come to dread.

There were no multibillion-pound misconduct fines or hefty provisions for mis-selling payment protection insurance (PPI) this time round – although it would be hasty to say the banks are out of the woods.

Arguably this is the first year since the crash when UK banks are producing “clean” numbers, with far fewer big write-offs and money set aside for fines, pay-outs and restructurings. That means the market should be able to better gauge progress on their strategies.

On a straight read of share prices over the year to date, taxpayer-controlled RBS is the big winner with its stock up 24pc, albeit from a low base. Barclays is the laggard with its stock down 18pc. HSBC and Lloyds sit in between, having picked up by 12pc

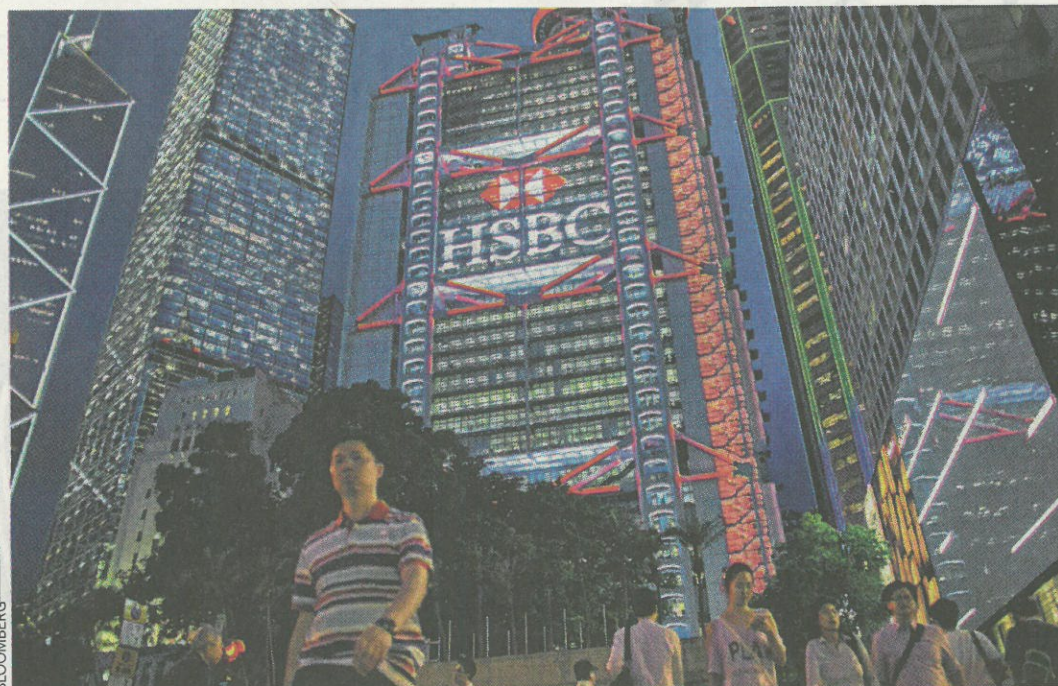
and 8pc respectively, modestly gaining on the FTSE 100 as a whole, which has risen 6pc.

A clear picture is emerging – investment banking is far less lucrative than it once was, hurting Britain's largest player in the field, Barclays. HSBC's focus on Asia's booming markets has helped offset this pain, but it is not immune.

RBS and Lloyds' UK-focused retail strategies – often maligned as boring – are proving safer and more reliable bets for driving improved returns. Their management teams are combining aggressive cost-cutting with lending growth, although question marks remain as to how sustainable this is.

In a bad quarter generally for investment banking – with traders on both sides of the Atlantic struggling with weak volatility and trading volumes – Barclays conspired to underperform its US peers.

“The main theme we saw from this results season was weak trading in investment banking,” says Laith Khalaf, senior analyst at Hargreaves



Lansdown. “This really affected Barclays, they lost momentum.”

Revenues at Barclays' markets division were down 18pc for the period, with trading in fixed income, currencies and commodities (FICC) down particularly sharply at 34pc. US investment banks, by comparison, saw an average FICC decline of 22pc.

Poor performance in investment banking is particularly stinging for Barclays as Jes Staley, its chief executive, has staked his strategy on turbo-charging the division.

Analysts lauded the ambition but questioned how achievable this would be. Ian Gordon, an analyst at Investec,

said in a note the update offered “no relief at all” for Barclays investors after a “torrid time in 2017”. There are further clouds on the horizon. The bank is fighting two legal battles over emergency funding it received during the financial crisis from Qatar, while Mr Staley's job is under scrutiny as he anxiously awaits the outcome of investigations by UK and US authorities into his attempts to unmask a whistleblower, with verdicts expected by the end of the year.

The outlook might be better at RBS, but it is by no means clear skies for the bank that blew up so spectacularly in the financial crisis. It is still 71pc

taxpayer-owned and until the high street lender is returned to private ownership, the wider banking sector cannot truly claim to have put the crash behind it.

That day is surely edging closer, after RBS posted three consecutive quarters of net profits this year, or £1.3bn to date.

Whether or not it achieves a watershed first full-year profit in a decade hangs on when it incurs a long-awaited hefty fine for selling toxic mortgages in the US. Ross McEwan, the chief executive, said he believes it is “unlikely” RBS will return to the black this year, but he

An HSBC building in Hong Kong. The bank's focus on Asia's high-growth markets helped to underpin solid if unremarkable third-quarter results. More than 70pc of its adjusted profit now comes from Asia

conceded the Department of Justice fine – expected to be \$6bn or higher – could hit next year instead. “RBS is on track to return to profit,” Khalaf says. “But management would actually prefer to get the fine out of the way and clear the decks. It is the Sword of Damocles hanging over them.”

Lloyds is much further along the recovery path after fully returning to private hands in May. The bank led by António Horta-Osório posted a leap in pre-tax profits to £1.95bn for the third quarter, up from £811m. It recommitted to its dividend and said it would consider a special dividend or share buyback at the end of the year.

But a spike in loan impairments, a rise in PPI claims and a warning over pressure on capital requirements concerned investors.

All eyes are now on his next three-year plan, which he will unveil in February. It is expected to put an emphasis on digital banking, insurance and wealth management.

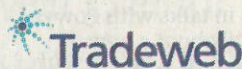
HSBC's third-quarter results were solid if unremarkable, with steady profits and revenue growth for the year to date underpinned by its “pivot to Asia” strategy. More than 70pc of adjusted profit now comes from Asia.

A UK regulator investigation into HSBC and other British businesses' alleged links to corruption in South Africa could pose problems down the line, after Labour peer Lord Hain said he passed incriminating evidence to the Treasury in recent weeks. HSBC has said it is co-operating and has declined to comment further.

For banks the “new normal” looks to be much more volatile than the pre-crisis world. But the large lenders are at least starting to shape up.

Share prices www.telegraph.co.uk/shares

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Government Securities

Amount Issued (£m)	Stock	Price	Flat Yield	Rnd Yield
24072.0	Treas 8% 21	126.49	6.32	0.53
35076.5	Treas 5% 25	128.38	3.89	0.98
19027.7	Treas 6% 28	148.24	4.05	1.31
35440.5	Treas 4% 32	134.23	3.17	1.61
29761.9	Treas 4% 36	138.79	3.06	1.76
25201.4	Treas 4% 38	151.07	3.14	1.82
6579.0	Treas 2% IL 20367.81	2.25	0.00	
6821.2	Treas 2% IL 24367.02	1.89	0.00	
484.2	Treas 4% IL 30366.27	2.21	0.00	
9084.0	Treas 2% IL 35 267.46	1.17	0.00	

Mkt Cap (£m)	Stock	Price (p)	Cvr	Yld
1141.2	Drax Group •	280½	3.9	4.4
31184.9	Nat Grid	918½	5.0	5.0
13965.8	SSE	1367	1.7	6.7

Engineering / industrial

1799.7	Bodycote •	940	2.2	1.7
203.5	Castings	466½	2.1	3.0
1264.9	Coats Group •	89½	3.3	1.1
136.3	Cropper J	1440	4.3	0.8
696.5	Fenner	359	-4.0	0.9
147.6	Goodwin	2050½	2.0	2.1
3462.9	IMI •	1273	1.2	3.1
35933.6	Jardine Mthsn	4948½	0.0	2.4
238.2	Low&Bonar	72½	1.4	4.2
4253.2	Melrose Ind •	219½	-0.8	1.5
6720.5	Mondi	1830	2.3	2.7
202.2	Severfield	67½	2.2	3.4
6287.6	Smiths Gp	1589	3.3	2.7

Mkt Cap (£m)	Stock	Price (p)	Cvr	Yld
5359.4	Admiral	1866	1.5	3.8
20437.1	Aviva	509½	0.6	4.8
2618.5	Beazley •	498½	3.3	2.1
5025.6	DirectLineIns	365½	1.2	4.5
4054.1	Hiscox •	1415	4.2	2.0
2882.5	Jardine Lloyd •	1316	1.2	2.5
1485.2	Lancashire Hldg •	741	5.0	1.6
16253.9	Legal & General	272½	1.4	5.4
9539.3	Old Mutual	193½	1.7	3.6
3016.0	Phoenix •	767	-0.7	6.4
48304.5	Prudential	1868	1.7	2.4
6315.4	RSA	617½	0.1	2.9
6253.6	St James Place	1182	0.6	3.1
12963.5	StrndrlifeAber	435½	0.9	4.7

Investment trusts

Mkt Cap (£m)	Stock	Price	NAV	Yld
9412.5	3i	967½	650	2.7
2027.4	3i Infrastructure •	197½	169	3.8

Mkt Cap (£m)	Stock	Price (p)	NAV	Yld
252.4	JPM Eur Gwth	327	358	2.1
159.9	JPM Eur Inc	170½	184	2.9
66.5	JPM Inc&Cap Ord	97	103	8.2
47.3	JPM Inc&Cap Unit	373	395	4.3
88.1	JPM Inc&Cap Z	189	188	—
826.5	JPM Indian •	785	878	—
667.2	JPM Japanese	413½	468	0.9
223.7	JPM Japan Sm Cos	409½	458	—
275.8	JPM Mid Cap	1158*	1280	2.2
403.4	JPM Gbl Gth & Inc	325½	322	3.7
260.8	JPM Russian	499	583	4.6
180.5	JPM Small Cos	1060	1304	2.2
164.6	JPM US SmI	293	297	—
1233.9	J Laing Infra •	124½	119	5.6
42.7	Jup UK Gwth IT	325*	327	2.2
245.2	Keystone Inv Tr	1813½	2029	2.9
719.6	Law Debenture	608	676	2.8
418.0	Lowland Inv	1547	1664	3.2
154.5	Majedie	289½	323	3.2
228.4	Mtn Currie Port	244½	247	1.7
1775.7	Mercantile InvTr •	2143	2359	2.2
536.0	Merchants Tst	493*	524	5.0

Mkt Cap (£m)	Stock	Price (p)	Cvr	Yld
5838.1	Informa	708½	1.2	2.8
6432.6	ITV	159½	1.5	4.6
5666.0	Pearson	693½	-7.4	5.6
18536.3	RELX	1741	1.5	2.1
3806.7	Rightmove •	4150	2.6	1.3
16270.5	Sky	946½	—	—
226.5	Trinity Mirror	82½	4.4	6.8
2858.9	UBM •	725½	5.4	3.0
16668.2	WPP	1318	1.8	4.5

Mining

20858.4	Anglo Amer	1485	2.6	2.5
9760.0	Antofagasta	990	0.6	2.0
30149.8	BHP Billiton	1427½	1.3	4.6
1518.5	Centamin •	131½	1.4	9.3
4218.8	Evraz •	294½	-0.5	7.8
9505.9	Fresnillo	1290	1.8	1.9
54534.5	Glencore	378½	1.4	1.4
1165.6	Hochschild Mng •	229½	3.2	0.9
327.2	Kenmare Res	298½	—	—
203.6	Lonmin	72	—	—

Mkt Cap (£m)	Stock	Price (p)	Cvr	Yld
1134.8	Hansteen Hldgs •	137½	—	4.4
373.6	Helical	315	4.0	2.7
13359.7	H K Land	567½	7.5	2.6
7103.0	Land Secs	958	—	4.4
25.2	Local Shopp REIT	30½	—	—
1242.7	LondonMetric •	178½	—	4.2
214.3	McKay Secs	228½	—	3.9
316.5	Mucklow A J	500	—	4.4
333.6	Raven Russia	50½	—	—
142.7	Raven R C R Prf	144	—	8.3
2.9	Raven R Wts	26	—	—
244.3	Raven R CnvPref	123½	—	5.3
715.1	Redefine •	38½	41	6.7
969.7	Safestore •	462½	—	2.6
874.8	St Modwen •	393½	4.0	1.5
1354.0	Savills •	954	3.3	1.5
5496.0	Segro	548	—	3.0
2807.1	Shaftesbury •	1006	—	1.5
162.1	Town Centre	305	—	3.8
2039.9	Tritax Big Box •	149½*	129	4.3
1742.9	Unite •	724*	—	2.7
396.3	Urban&Civic	273½	4.9	1.1

Mkt Cap (£m)	Stock	Price (p)	Cvr	Yld
114577.0	Brit Am Tob	4995½	1.4	3.5
29014.4	Imp Brands	3038	0.4	5.3

Transport

3376.1	BBA Aviation •	327½	-0.7	3.0
885.8	Clarkson •	2930	1.8	2.3
809.2	Fisher J •	1612	2.9	1.7
615.9	Northgate	462½	2.6	3.7
3789.0	Royal Mail •	378½	1.2	6.1
327.6	Wincanton	263	3.8	3.5

Travel & leisure

10551.1	Carnival	4975	2.1	2.8
26332.5	Compass	1665	1.9	1.9
5219.3	easyJet	1314	2.0	4.1
1362.7	FirstGroup •	112½	—	—
320.7	Fullers 'A'	991	3.1	1.9
1723.5	Greene King •	556	1.5	6.0

Mkt Cap (£m)	Stock	Price (p)	Cvr	Yld
218238.1	Chevron \$	114½	3.8	0.8
19234.8	Coca-Cola Euro \$	39½	2.5	1.4
61932.8	Colgate Palm \$	70½	2.3	1.6
15486.9	Dr Pepper \$	85½	2.7	1.7
72835.0	Du Pont \$	83½	1.8	1.8
352993.3	Exxon Mobil \$	83½	3.7	1.0
27932.6	Fiat Chrysler \$	18½	—	—
3696.4	Foot Locker \$	29½	4.2	4.0
174005.4	Gen Electric \$	20½	4.8	1.1
193903.7	Home Depot \$	164½	2.2	2.0
110647.1	Honeywell \$	145½	2.1	2.2
35918.8	HP \$	21½	2.5	2.8
140868.4	IBM \$	152½	3.9	2.0
21543.6	Inger Rand \$	86½	2.1	2.2
217109.9	Intel \$	46½	2.3	2.7
23565.1	Intl Paper \$	57½	3.3	1.0
351899.6	JP Morgan Ch \$	101½	2.2	3.1
376139.7	Johnson&John \$	140	2.4	1.7
8310.7	Manpower \$	125½	1.5	3.6
13016.9	Marathon Oil \$	15½	1.3	13.4
134923.7	McDonalds \$	169½	2.4	1.7
152827.3	Merck \$	56	3.4	1.0