Barclays PLC Q3 2019 Results

29 October 2019

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

Tushar Morzaria, Group Finance Director

In terms of our third quarter results, we were obviously quite pleased with the results for the third quarter or this year, and that we were above our target returns objective, and I guess that's six out of the last seven quarters that we've been above 9%. So we feel pleased with progress. In this year, thus far, all three divisions have been above 9% for all three quarters, so again we feel pleased with progress there.

At the group level, excluding conduct and litigation, we were over £1 billion in profit, every quarter as well, which is something we feel's a good objective for us.

And capital returns as well, we're very pleased we've got agreement with our regulators to restrike the way operational risk-weighted assets are allocated between Pillar 1 and Pillar 2. I guess the timing of that was somewhat fortuitous because it came in the same quarter as we had a fairly significant conduct charge. With all that in mind, 13.4% is close to our end state, we'll operate somewhere around 13.5%. So I'd characterise that as our end state; we'll be above and below that as different quarters go.

And we reaffirmed, even with that conduct charge, the guidance we gave around dividends, that the interim dividend remains unchanged, obviously subject to all other things being equal. So we feel pleased with the capital progression of the group as well.

There were some items I gave in terms of guidance, and so I'll just hop through them really briefly. UK NIM, I did talk about that being close to the level of the third quarter NIM for the full-year basis. This is blindingly obvious, but sometimes it doesn't come across on the call, so I just thought I'd repeat that. Obviously, that means a lower fourth quarter NIM, just the averaging. You guys can do the maths yourself, but if full-year NIM was 310 basis points, and I suspect it will be lower than that, that would imply a fourth quarter NIM of 307 basis points. So if you think full-year's going to be lower than 310, obviously you can do the averaging maths for yourselves. Just to make sure you're thinking about that in the right way.

UK provisions: We had a recalibration of our models, a catch-up really of the way our models pick up actual customer experience. There's our forecast, there's a cash-up credit, that's a non-recurring item. I think if you look through UK provisions, we've always guided for somewhere around £200 million being a reasonable run rate per quarter.

And just to remind you, I think that's probably at the higher end of what I would expect, given the lower interest and balances that we have in our UK part of the business. That's probably at the upper end of where we may come, again subject to all other things being equal, the economy, employment, those kinds of things.

US provisions, we've always said that, unlike the UK, it's a slightly different shape, where you would have typically a lower impairment experience in the first half and higher impairment in the second half, and you saw that from Q3 to Q2.

I would expect Q4 impairment to tick up, again all things being equal in Q4, really reflecting just the seasonal spending patterns, particularly in the US with Thanksgiving, and Christmas. We have a

reasonable build of ECL (Expected Credit Loss) as a constant of that spend pattern, again those balances are paid down, you get a better impairment number in the first quarter.

Costs: We reaffirmed our guidance of expecting to be slightly below £13.6bn. This is somewhat depending on foreign exchange rates. We've obviously had a headwind in the third quarter, a 1.23 USD/GBP currency rate, which is good for us because it pushes up income but pushes up cost as well. Depending on where currency rates are in the fourth quarter, at the moment everything should be okay, we should be just slightly under £13.6bn.

TNAV: Which I know is a big focus for some folks, again just to remind you - we are interest rate and currency rate-sensitive, and, generally speaking, a low rate and a weak sterling pushes up TNAV, and we have benefited from that in the earlier part of this year.

When I compare where we are today to where we were at the end of the third quarter, just note, interest rates are higher and the pound is stronger, so that has a downward pressure on TNAV. When you're thinking about how that may evolve, keep those sensitivities in your mind.

There are a few other things I'll just remind folks of. We had a question on Head Office, and just to remind folks of the point there, the Absa dividend was in the third quarter, so again, when you're thinking about an underlying run rate for Head Office, just remember to exclude the Absa dividend.

And then you have a small amount of legacy funding cost and hedge accounting relationships that sort of unwind over time, plus the residual Treasury P&L, that's probably slightly negative at the moment. But just to remind you of that, don't ignore the Absa dividend in particular.

And then, finally, our returns guidance: We reaffirmed our objective of getting to better than 9% RoTE this year, and 10% next year, but calling out that it is a more difficult operating environment that we find ourselves in now than we expected to find ourselves in when we were setting those targets.

Obviously, in the fourth question, we're just weeks away from closing the fourth quarter, so assuming all things being equal, it'll just be a function of activity levels in the fourth quarter, particularly on the investment banking side. That will be what it will be.

On the 10% RoTE, we do feel, with the lower-rate environment, that's quite a significant headwind that we find ourselves against, and not only does that impact the net interest income you have from your hedging activities, but also mortgage margins and various other things have been compressed. So I do think that's a more difficult environment than we expected to be in, so just to remind you of that.
I will pause there and we can open up to questions.

Joe Dickerson, Jefferies

I just had a quick one on the Investment Bank, because obviously if the rate environment is as you think, you're going to become more reliant on the revenues there, and you've actually had a very good performance for, what, about seven or eight quarters in that business, particularly the relative trend, probably to the chagrin of your activist. I guess it seems like there are three drivers there, it seems important to understand the sustainability of other areas. So one would be the competitive dynamic of certainly some of the Continental European peers. The second would be you've been building out in certain areas. I believe the last major one that's showing through the results is the Securitised Products. And then, the third is the commitment of incremental balance sheet to the business.

So those seem, to me, to be the drivers that are pushing that relative performance, and how sustainable is this, as we think into this time next year? What are we looking at? I think it's a fairly important dynamic to understand if the rate environment's not going to change.

Tushar Morzaria, Group Finance Director

Yes, good question. I think you've probably called out three important ingredients. I'd add to it that human capital's been an important investment area for us. We feel that's been quite beneficial to us, just having more seasoned, experienced bankers and sales and trading professionals has made a

difference. It is very hard to quantify this. It's definitely looking at the business from the inside, definitely every quarter seems to be making a difference to us.

You are right about the competitive dynamic. I guess I've always been personally quite sceptical about being an alternative for the US banks and does that really change client dialogue, but perhaps for the first time with my sceptical lens on it, I'm seeing evidence of that.

Again, I wouldn't overstate it, I think it is at the margins, it's still very competitive out there and you've got to compete and you only get the business if you're the best bank, but you're probably getting invited into more opportunities than we would have otherwise have done. I think that's a margin that can be helpful.[…] So again, I wouldn't overstate it, I'm a little bit sceptical. You don't just get the business because you don't have the stars and stripes on your flag, but at least you get invited into the dialogue, which gives you half a chance.

On Securitised Products, you are right. The other one I'd call out is probably Equity Prime Financing, I've felt this for a number of quarters now. Prime is a lot more stable, annuity-like income stream and has a sort of halo effect of better execution, and at the margin also benefits our capital markets business. And that's been a good trend for us. We've been steadily increasing our share in our prime services business.

Balance sheet, yes, whether it's leverage or RWA, I would say we're sort of happy with where we want to be, we won't be growing that on a trend basis. There'll be ebbs and flows, Q2 was a little bit lower, Q3 was a little bit higher when compared to other things, but I would say where we are and where we've been running on average is where you'd expect us to be running, so I don't expect to put net new capital on a trend basis in to the CIB.

Where does that leave us, going into next year? I'll let you guys have your own forecast, but we sort of feel okay with the environment. We don't think 2019, people are going to look back as a banner year for investment banking. I think most IB industry wallets are down.

But I think to the extent that there is a change in the wallet size and a change in opportunity, I think we're quite well positioned to get more than our fair share from that. We don't have a crystal ball on the wallet, but on a relative basis, I think we'll be okay.

Martin Leitgeb, Goldman Sachs

In regards to the capital allocation to Barclays UK: With Barclays UK being the high-return platform at the moment, and I think Barclays took the conscious decision to put the brakes on certain products in the UK, notably credit cards where, I think since the Brexit Referendum, you have lost market share as the market grew, but your balance has kept relatively stable there over the last three years.

Do you think it is time to reconsider that decision, to be growing again in this market, or even faster than the market in certain product areas in the UK, outside of mortgages, if, say, in a couple of weeks, or in a couple of months, we will have some form of resolution regarding Brexit?

Tushar Morzaria, Group Finance Director

It's an interesting question, and at our Executive Committee, our management team are debating that, whether we should lean into UK risk more than we have done. We've almost leant out of UK risk, of late. 'Not yet', I think is the answer, but there is a time where we're probably closer to that determination that we are presently.

The thing with the traditional banking business is you're more interested in the forward environment than the spot environment, so if we were to lean into, let's say, unsecured credit now, you've really got to have a conviction on what that looks like in 2021, 2022, and just the typical data of acquiring new cards, new business, new lines and then just start revolving, usually 12 to 18 months after that, and the timing's got to be good.

So it is complicated and I think in hindsight, we were probably too early to lean out. That is what it is, so probably asymmetric, but it is something we're keeping a constant vigilance on.

The other area that interests us is that spending patterns and borrowing patterns are evolving. One of the things we see, particularly in the younger generation, is much more comfort with instalment lending, so point-of-sale finance, and that's a really interesting area for us.

It's unsecured credit, but it's unsecured credit in a slightly different way. You show up at a till, you want to buy something for £1,000, you put it on your credit card or you can make ten payments of £100 plus interest. And that second thing seems to work well with many, particularly younger consumers.

Why that's interesting to us is because we can, in theory, do point-of-sale finance both through your Barclaycard at the terminal, and that instalment offer could be provided then, rather than just a revolving credit line, but you can also do it through your acquiring business as well, because you have the terminal there.

So they could be a non-Barclays customer wanting to purchase through our acquiring business, and that's the business we actually already do. A good amount of that is already done with Apple retail stores. Any iPhone that sells on a point-of-sale form of lending basis is with Barclays. Most people don't even realise that.

So those kinds of areas, growing unsecured credit, perhaps not just the traditional card business world, are also quite interesting to us as well. We're rolling out point-of-sale finance as a business but with respect to leaning into UK credit we haven't made that determination yet, but it is something we're very focused on.

Alvaro Serrano, Morgan Stanley

Obviously, part of the outperformance seems to be explained by geographic mix. I think in the past you said [that 60% of your CIB business comes from the US. Could you give us an update if that 60% still stands?]

[You were quite guarded about the outlook for 2020, especially when it comes to revenues. Could you briefly talk us through what elements of cost you may be looking to adjust in each of the division?]

Tushar Morzaria, Group Finance Director

Yes, thanks for those. On your first question, for the geographical mix, or bias I guess, in the CIB, we are definitely bigger in the US, for sure. I'm always a little bit loath to put too precise a number on it, because it depends on obviously where the market is, but I would say that for the fee-orientated businesses, capital markets, advisory, there is probably more of a bias to the US. And the deepest, most profitable pools of capital raising activity are in the United States, and we are overweight there.

Sales and trading, again probably slightly bigger in the US, but a little bit more balance, you've still got the heritage Barclays Capital franchise, European rates, foreign exchange to our London operations. They are still quite meaningful businesses, but probably on balance, probably still skewed towards the US.

It's probably the fee line that's definitely more skewed to the US, and that's really a function of the sizes of the relative markets. I don't know if we're the largest fee-earning in the UK this year, I haven't checked the tables recently, but at least for the last couple of years we have been the largest fee-earner in the UK. It's just that the UK is a much smaller market than the US, so you could be sixth in the US and still make lots, lots more fees than you would by being number one in the UK. So the US counts for more in terms of fee line and on the trading line.

In terms of the cost profile of each of the divisions, I'll do them in reverse order, for Consumer Cards and Payments (CC&P), that has been on an upwards cost trajectory, really because we've been growing the balance sheet in that business at mid single-digits on average, and I think that's hit a sort of plateau point, as you saw that in the third quarter.

I think you will see costs tick up there, but more modestly than you've seen in the past. And the reason for that is within CC&P is our payments opportunity and continuing to drive some investment in there.

But I think it will be very modest cost growth, less than you may have seen in the past, where they've experienced quite negative draws for a number of quarters. I don't think it'll be quite as extreme as that.

CIB is a little bit easier, I think. CIB obviously has a fairly meaningful variable compensation component, so that'll just be driven by where top line goes. Outside of that, the name of the game is really to have growth efficiencies that we have some discretion of how much we put back into that business. So, for example, we had in the earlier question, Securitised Products we have been growing our products there very methodically, very carefully, relatively small-scale.

A year back we started issuing primary CLOs, I'm talking 2018 now, so that's matured out a little bit. So there will be pockets of product evolvement, product growth, but where we have areas of discretion. So if you feel the wallet environment is there, we should have the capabilities to do that within the cost base that we've got, within the CIB. We wouldn't expect to be having a significant increase in the cost base outside variable compensation.

The UK, I think the income environment there is probably the most challenged, simply because of the rate environment and margins, those are big headwinds for us, and that will, from what we can tell, persist into next year. So I think cost-efficiencies is something we are again, very focused on.
With the UK, the one thing that's perhaps not as obvious when you look outside in, that business has, as an industry matter, been massively transformed in the last several years, within the last five years. At the same time, it's had an enormous amount of regulatory change put through it as well, with the ring-fencing and various other things, so our costs in the UK have been roughly flat, at about £4 billion, for the last three or four years.

An enormous amount of change has gone into that business, and I don't think that journey's really over; the regulatory changes are over, but I think the transformation from a traditional physical-based business to different distribution channels - I don't think that journey is over yet.

And it actually throws up some really interesting opportunities. Again, linking our UK retail business with our acquiring business, again, we think has some very interesting opportunities now it's becoming a much more digital-orientated business. They're more medium term, they may not make any profit into next year or even the year after that, but certainly on the three to five-year focus, I think that looks quite interesting.

Alvaro Serrano, Morgan Stanley

You mentioned that BUK is stable around £4 billion, if I look at the other UK businesses, they have been coming down. Should we expect some kind of catch-up at some point?

Tushar Morzaria, Group Finance Director

Yes, I don't want to give too specific a guidance, but we certainly don't expect them to be going up. They will be on a flat-to-down trajectory, but the dynamics that I wanted to share with you is that there is a lot of change going on in the way that business is going to be facing consumers and customer, that is still ongoing. But certainly, costs won't be going up. We will be affording to do that without increasing our own existing cost base.

And once again, we have discretion on how quickly we roll some of these things out. It's the call on the balance of today's cost environment versus revenue opportunities for the three-year.

Anke Reingen, RBC Capital Markets

[You mentioned that the 2020 RoTE target of >10% looks challenging. Should we assume that you are coming up with a plan to get there?]

Tushar Morzaria, Group Finance Director

Yes, and it's really maybe a statement of the obvious, that in the environment that we find ourselves it's just harder to achieve than when we first set it. I don't think it's anything more. We have a plan to achieve that, it really depends on the operating environment and our ability to execute into next year.

But it feels like a higher bar than we had for ourselves in the summer or the third quarter of 2017, when we set it.

A few things have gone our way. It's swings and roundabouts. I think US tax rates have been in our favour. Employment rate has been quite low, that's gone in our favour. Rate environment substantially lower, margins substantially… There are swings and roundabouts in there.

But when I put it in the mix, net-net, it does feel a bit harder. [But, the >10% target is] something that we're still sticking to and something that is our objective. I think we won't throw in the towel unless we absolutely have to, but this is just a dose of reality. It's just a harder environment than when we first set those targets.

Anke Reingen, RBC Capital Markets

[So will the 10% target be pushed out?]

Tushar Morzaria, Group Finance Director

No, it's a 2020 target.

Jonathan Pierce, Numis

On the pension fund current funding plan, I think 4p of earnings will be consumed a year, sort of 18 months forward, for another six years. I expect it's difficult to maybe talk in detail at this stage, but an update on your philosophical thoughts would be helpful. Assuming the deficit is lower than the residual contributions on the old plan, which it looks like it probably will be, what's your thinking in terms of conversations with the trustee pressing maybe to get the overall residual contributions down, stretching them back out over ten years? Those sorts of thing would be helpful.

Tushar Morzaria, Group Finance Director

It's a good question and I'll have to be a little bit careful because we're in dialogue with the trustees as we speak. So for those of you that are probably not as familiar with it, the triennial negotiations with the trustees happen in September, already going in September 2019, so we're right in the negotiating period.

You are right, the deficit, as last published, and it's probably even gone a bit lower than that just on the way the market has performed, I think the last time we published it was £4 billion deficit on a like-for-like basis. It will be lower than that now. And that was versus, I think, a £7 billion deficit in September of 2016, so our deficit reduction contributions are struck off obviously a much higher deficit than I think we'll be experiencing now.

The reason why I'm going to be a little bit circumspect answering is there are three parties to this negotiation: two of which engage very directly, and one that sort of looks over everybody's shoulders, and that's the pensions regulator. The pensions regulator's current guidelines would suggest that you have to make deficits whole over a ten-year period. That, in theory, ought to be very helpful to us as an employer and what's good for an employer typically is good for the covenant and the pension fund trustees - the best thing they can have is a financially strong employer.

The trustees have been incredibly cooperative and responsible when we were going through all of the enormous capital changes and regulatory changes, whether it's the introduction of Basel III, whether it's ring-fencing, you name it, all the conduct stuff that was going on and being very constructive around their deficit-reduction schedule and back-loading it, the contributions, lowering the front-end[…]. I suspect they will expect us to give something back, and I imagine those are the discussions that are going on. So look, there's an opportunity there, but I think it's way too early to say what that is and what it's worth. We probably should conclude in the first quarter of next year, which is a little bit quicker than we normally would, only because there are less [things on the horizon we need to discuss].

Jonathan Pierce, Numis

So will you communicate the expectation at Q1 results?

Tushar Morzaria, Group Finance Director

Yes, probably Q1, somewhere around there. Assuming things go according to plan. That's probably a good three months quicker than we have in the past, so it may slip into the Interim Results. But I think Q1 is reasonable.

Jen Cook, Exane

On payments and your UK merchant-acquiring business. I can appreciate why you might be slightly reluctant to disclose it, if profitability is not yet reflective of where you think it can be, but looking at your current strategy and expansion in Europe, it feels like investment costs are going to remain elevated for quite some time.

I was wondering if you could maybe give us a breakdown of those investment costs between regular and CAPEX, and whether or not you'd consider disclosing an EBITDA view of performance of that segment?

Tushar Morzaria, Group Finance Director

I know you've written some very interesting pieces on it, it is a good question. I think when I look on the horizon of Barclays, there are three or four businesses that look really interesting to us, and they all fit the following attributes: they're capital-light, they tend to be relatively lightly regulated compared to the portfolio of businesses that we have at the moment, and they are something that we already have real clients and some sort of edge in there.

I might throw out payments as an example of one. UK wealth, or mass affluent wealth as another. Also transaction banking in the continent of Europe, [with a] non-physical footprint. The other one I'd throw out as an example is the link between our retail bank and our acquiring business.

And I think at the right time, we'll probably be spending a bit more time talking about the opportunities, where we are and where we could go in the future. So I think the one you're focused on, payments, can be quite a broad church, depending on how you define it. And then, we'd be thoughtful of how we talk about that and give additional disclosure, but it's something on our minds.

No expectations near-term, I think we're a little while away yet, but everything you've said does resonate with us, that it's something that we would like to talk about more, but probably not for a while yet. But I think it will be just one aspect of those three or four very interesting medium-term growth opportunities.

Jen Cook, Exane

And in terms of CAPEX?

Tushar Morzaria, Group Finance Director

Our approach has always been that you've got to be able to afford your own investment, so we don't expect, unless the revenue environment completely changes, to be growing our costs substantially at all. But to the extent we need to (and we do need to put CAPEX into all of those businesses), it'll be through the efficiencies that we make every single year.

Mature companies always start the year with how can you do everything you did last year for 5% less? That's what we do; I'm sure most other banks have a similar approach. And then, what do you do with that 5% less? How much do you then capture because your income environment is challenging, or do you put back into investment? And that's the decision we make every single year.

For example, this year, we deferred and pushed out some investment in US digital. We don't enjoy making those decisions, because there are longer-term costs implications rather than short-term cost saves, so it's a balancing act.

I think for these three or four opportunities, they're the ones that feel very real to us. These are ones where we have real customers, real market share, some sort of real edge in what we do. So we'd be reluctant to slow down the pace of investment but it will be paid for in our existing cost base, as opposed to ramping up costs.

Raul Sinha, JPM

I was wondering if you could share with us your thoughts on Basel IV? Or 3.1, as we've been told. Obviously, you've had a large chunk of your operational risk weighted assets moving to Pillar 2A. Have you got any confirmation that that would help you when you eventually transition to the new Basel rules? And then secondly, do you have any line of sight as to how the PRA calibrates some of the very important decisions around Basel IV as we go into the implementation of that?

Tushar Morzaria, Group Finance Director

The short answer to that is not really. And just to make clear, there's a few changes in the Basel rules going on. There's CRR2 or CRDV which is I think is enacted now and that we've given guidance on it. If it's not enacted, it's virtually enacted. CRR3 which I think is Basel 3.1. On Basel IV, there isn't a legislative timetable, I believe, yet. Even though the Basel Committee has talked about 2022, that feels quite optimistic, given where we are today.

It might change. But usually these things take a year or so to go through. As they start to go through the legislative part of it, then there's one or two years of implementation, then the national competent authorities adopt them and a transition framework is put in. It feels several years out.

In terms of our dialogue with the PRA, because it's so far out and we don't really know what the full package of CRR3 will look like once it's gone through the political legislative process, it's very hard to be deterministic of what it means for us. The only thing I do take some comfort from, and I do think that there the regulator has done a good job of this, they have talked for some time now about the UK environment being prefunded for capital changes they expect to see on the horizon.

And they use Pillar 2A I think quite effectively to deal with those kinds of things. Now, we don't know if that's really how it's going to play out until these things come in and the PRA come out with their plans on how they're going to adapt it. When I look at the National Policy Committee minutes or indeed the PRA's own commentary, they've always talked about UK banks being prefunded.

And taking another step back, probably not so far, in terms of the other UK banks, we've seen meaningful distribution by other UK banks actually over the last couple of years with increased dividends, ordinary dividends as well as, on top of that, the special dividends and buybacks and various other things.

And I think the PRA are a very sophisticated regulator. I don't think they'd be doing that if they feel there was another material [increase] in capital requirements. That's just one person's view, but that's what I think. But I think it does feel several years out into the horizon […].

Ed Firth, KBW

On the Investment Bank, I guess it feels that the revenues can feel a bit of a random walk, quarter by quarter. And certainly if you look at consensus, we certainly had no idea what the numbers were going to come out at. So that makes it difficult for clients to put any multiple on it because clearly, this month is good or this quarter is good but next quarter could be bad, and really, next year, nobody's really got any idea at all what it's going to be.

So is it possible to somehow split that revenue base up and give us some idea of what I would call its 'franchise value' which we know will be there and, what will come in each year as annuity stream. How much of that would be trading 'froth' that may or may not appear?

Tushar Morzaria, Group Finance Director

You've got to look at it on the fee line as well as the sales and trading line. Everything you've said, the fee line will exhibit. We've seen our wallets shrink and grow and M&A activity increases and decreases. But you've got to look at it on a trend basis. I'd caution anyone to look at trying to guess the next quarter or the quarter after that. This is a very difficult thing to do, even for those inside the industry, let alone for those outside. Because they are very short-term businesses.

But I think if you look at it over a trading trend, if you take say our fee business, our Dealogic fee share, which is a reasonable measure, is somewhere around the mid fours. So I think you'd have to take a view of the investment banking wallet. Interestingly enough, it's been stuck at $80 billion for the last three or four years.

[…] Even though the internal, what's been driving that has been quite different. We're actually quite happy with it. We've done a bit better this year. We've picked up [30] basis points of market share according to Dealogic.

With sales and trading, Coalition studies captured the entire revenue produced by the ten largest sales and trading businesses which is in the region of almost 100% of the addressable wallet. There's been a slight downward trend, but our revenue share there has increased. And this is stuff you can get hold of publicly. If you haven't got it, I'm sure IR can point you to the website and what have you.

I think for your own modelling purposes, you've just got to have most of those to establish what you think the wallet share is. Your guess will be as good as many others, I imagine. Then you consider how do you think it will perform relatively, whether you think we'll be able to retain the share that we've got, do better or do worse. Again, you'll have your views on that.

That's how we think about it internally and that's the best way for you guys to get it. But I'd really caution anyone saying, 'well, Q3 was good, therefore Q4 is going to be good', or 'Q3 was bad, Q4 must be bad'. Look at it on a trend basis, the rolling four, five, six quarter average. It's the best way to look at it.

Ed Firth , KBW

And in terms of the market share then of those key areas, should we be expecting that to be broadly similar? I know everybody's always trying to grow market share.

Tushar Morzaria, Group Finance Director

Yes. I think you start off with that and then you ask yourself, could we do better? Why? Or could we do worse? And why? We've done better in recent times. That's not a trend you can extrapolate into infinity. No one is that good. But one of the reasons why we've done a little bit better is on the three things we called out. It's our human capital, product and services, technology capital and financial capital.

We're largely done now in terms of human and financial capital. I think rolling out product and services is something we always keep an eye on, try and, as I talked about. These are small things. These aren't game changers in themselves but just making sure we're up to date with what's most interesting for our clients and are able to provide those services.

I think on the fee line, we've been underweight in the technology sector. A lot of capital markets activity has been coming out of the tech space, particularly out of the West Coast of the US where we've been underweight. We have made selective hires in there, and if you look at our share in active book-running on some of these technology [fund-raisings], it has picked up.

Again, maybe next year, it's not going to be tech. Maybe it's going to be, I don't know, real estate or something like that, and then you'd have to take a view of our real estate franchises. And that's how we model internally. And you have every right to look at it in that way and form your own judgement as to whether it's better or worse.

Ed Firth , KBW

I guess of the three UK banks that have reported, all of you have made clear that your targets are pretty demanding. But I guess the other two have been pretty clear that we're going to have some sort of new restructuring programme at the full year to try and close that gap and how they'll address that, whereas my sense is that your message has been a bit more, well, "it'll be what it'll be".

If we get there and we see that we're not going to make these sorts of numbers, is it your sense that those are just not achievable in this environment, without interest rates going up? Or should we actually expect you to start saying, well, no, 10% really is the minimum level we should be able to achieve with the franchise we've got, and there are some levers we can pull and we'll start pulling them?

Tushar Morzaria, Group Finance Director

Yes, our bias is definitely towards the latter. It'll be a high bar to throw in the towel on something like that. We do feel with the portfolio we've got that >10% RoTE in 2020 is an achievable objective. We're probably more capital intensive than some other banks which makes it a little bit harder as far as the portfolio we have. If I talked about the other capital opportunities I mentioned earlier, they won't make a difference this year or next year, but certainly, if you're going out to 2023 or something like that, that ought to make an appreciable difference, and beyond that.

[You can look at it two ways. If risk-free rates are zero, then you can earn a reliable 9% 900 basis points of the risk-free rate. When risk-free rates were 5%, 6%, clients had a respectable return but still different than when rates are zero, just the nominal amount.

And I think that's probably the dynamic you're finding in the UK banks that in such a low rate environment - what is that correct nominal level].

I think we still feel 10% is the right thing to strive for and try and achieve and we'll continue to work on our businesses until we get there.

And the other thing is the couple of banks that you talked about doing large restructuring, they do both have new Chief Executives and that's what new Chief Executives tend to do.

Robin Down, HSBC

I'm slightly struggling with Barclays. And I guess it probably follows a bit from the previous question because the last ten years, Barclays have been dramatic in terms of there's always been a cost restructuring or a balance sheet restructuring or some sort of major litigations coming through. And it feels like what you're saying is that we've hit the end of that process, that the balance sheet isn't really going to change much from here, there's no major cost restructuring programme coming through. I know there will be some efficiency gains, but we're not expecting a great deal of revenue growth to come through. Is that a right characterisation? I'm not going to diminish your role over the next three or four years, but is it going to become a lot easier for you to manage the bank over the next three or four years?

[With the change in pension deficit, as discussed earlier], that presumably leads you to a position where you're looking to become a cash cow as far as that is concerned. So when can we see extra capital coming back from Barclays? I guess with the valuation where it is at the moment, a buyback must be very tempting for you. How early, if you like, can we see that coming back?

Tushar Morzaria, Group Finance Director

We've had it tough, let's say, at Barclays literally since 2009 and the financial crisis. If you think about it, if you take a history lesson of it, what happened in 2009, we exited the asset management and doubled down on investment banking. If we'd have known now what we knew then, that probably may not have been the portfolio allocation decision we'd have taken, but we got the hand we dealt and we've had to grapple with that as best as we can.

I think you're right though, pricing Barclays into the next decade. We shouldn't be doing multi-year, multi-billion pound cost programmes and balance sheet restructuring and stuff like that. And there's only so much a large-scale organisation can carry on doing there, and continue to be successful. So I'd

like to think that the portfolio businesses that we have can achieve our returns' objectives, whether we get from that, 10% objective, how do we make that 13%, 14% and 15%? I think those are the more capital light, interesting businesses we discussed earlier, where we haven't done a very good job on many of them and yet we still have real very high market shares and real opportunities in there. I think we'll talk more about that. So adding to this part of the portfolio rather than trying to restructure in the existing size and shape.

The one thing that's very hard to appreciate from the outside is that in restructuring there is incredible management bandwidth that disappears. So the amount of time and effort you spend on doing this stuff is at the detriment of so many other things. And it's not in the long-term health of the company to have the entire management team just focusing on reshaping all the time.

And having said that, we do want to still continue to drive up returns and have growth as much as good capital formation. And I do think that when I compare Barclays with its potential, compared to other UK banks, I think we have more opportunities for growth than some others.

That's why I mentioned UK wealth. We don't really talk about that. We've done a lousy job of really trying to monetise it and it's still, I think, probably the second [most] active trader of UK retail. We could give you a brokerage account alongside your current account. No one else offers those kinds of things. We have a number of affluent customers - we measure it's over a million already. Imagine if we gave a million customers a brokerage account. So there are things that we think are real.

With transactional banking I mentioned earlier. We've acquired over 200 clients from the continent of Europe this year alone. Now, again these are longer term relationships that will be profitable in years to come. But that's quite impressive for the client acquisition phase.

In terms of capital formation, I guess that is the other story at Barclays. The numbers are dramatic. We have provisioned £11 billion of PPI. Just that alone, that's more than the capital base of the UK bank. This consumed more than the entire capital base of the third-largest UK bank in the country. And these are enormous numbers that we've had to grapple with, with only one equity raise, way back in 2013.

The rest has been previous restructuring. If you think about this quarter alone, if we didn't have obviously the PPI charge, then we'd sitting on somewhere in the region of £1.5 billion of excess capital today, which is almost the same size as the scale of ordinary dividend that we've guided to.

So, I do think we are very capital-generative. I do think that it's a priority for us and the Board and managing to get that capital back to shareholders. There will be a time and a place when we're able to announce that, but I don't want to put a date on these kinds of things now. But there are fewer things on the horizon that I can see are going to be confiscating our capital and we have more flexibility to try and get that back to people.

Robin Down, HSBC

In terms of hurdles that are ahead for you in terms of capital, you've obviously got some wide changes from CRR2 coming through in 2020. CRR3 probably doesn't get put on the table until May/June next year and then takes two years to get through the European parliament. And then maybe another 12, 18 months, to the implementation. Are there any other things out there?

Tushar Morzaria, Group Finance Director

[…]There are several pages of legal disclosure on which I can't comment on any further, but the biggest things are off the list - PPI was the last big one. I think that the hurdles, the alternative ways capital could be confiscated, which it has been up 'til now, I've not seen too many of them. So, we ought to have more flexibility with our capital than we've ever had.

Andrew Coombs, Citi

I've got a couple, one broader strategic question, and, secondly, I want to try and dig into the UK, on the cards impairment scheme. On strategy, I think Jes made a remark about sequential profit growth being more important than the RoTE targets. If we jot up the guidance you've given, on the positive side I

think there's another win you've got coming through in the US cards business you talked about, which you've announced, in Head Office you've got some lower treasury costs coming through - funding costs. But, on the negative side, you talk about UK NIM pressure ongoing, UK loan losses stepping up year-on-year, and you were talking about the environment for investment banking and sales and trading continuing to decline in terms of industry worth.

So, then it sounds like the negative points you've guided to us outweigh the positives. So, when you are thinking about the imperative to get sequential profit growth year-on-year, what is the driver to deliver that? Is it cost cuts? Is it more optimistic outlook on market-share gains? What's the key differentiator?

Tushar Morzaria, Group Finance Director

If you think about sequential profit, the point Jes was making was that, we were asked in 2017 "How on earth are you going to 9%?" And we got to 8.5% return and now we'll hopefully get to somewhere around the 9% return.

Once we've been through, I'd say, a healthy environment – there've been headwinds along the way and it's navigating through all of them – we see growth in our US cards business; real profit growth there. We have been growing the books in the current macro environment Probably more risk in the US economy beyond 2020 and we're cognisant of that.

I don't know where the industry wants to be in investment banking. It feels okay at the moment. US is an absolute driver of that business. And, again, 2020 doesn't feel too bad. The geopolitical pressures in the last year of the Presidential term usually feel like they're well-contained. Usually markets do well in those sorts of periods.

In the UK business, absolutely, we're going to have to make sure our efficiencies are coming through. I think, as I say, the impairment guidance for 2020 - we've been looking at around £200m a quarter in UK impairment. That may feel a little bit high now for the unsecured balances. So, there's not one line item necessarily. It's a bit of everything and just managing them well.

Andrew Coombs, Citi

In the UK, you've actually had the lowest impairment quarter pretty much on record, and that's despite having a negative overlay on the macroeconomic assumptions. You stated it's because of the model update and that's driven down I think from today's BoE numbers. The issue we face is that if we look at RBS just a day prior, also made model adjustments on their UK cards, but it's pointing to higher loan losses.

I know you said about having attempted various things, but how often are these model updates occurring? I know they are updated on a recurring basis, but ones of this magnitude, is this an annual event? Is it more common? And I know you can't comment about your peers, but what has changed in your behavioural assumptions to apply those model changes to that degree?

Tushar Morzaria, Group Finance Director

For us it is very hard to comment on, because you'll know more about RBS than I certainly will. For us it was really just reflecting actuals. All we're trying to do is forecast future losses and making sure that our assumptions were correct. We set the individual models up in the back of 2017 but it's the second year that we're running under IFRS9 it's really just calibrating actual customer experiences to what we've been forecasting and different peer methods probably have some very different revisions to that.

One thing we always look at, which may be of help to you, is just to look at relative staging proportions and coverage ratios of those staging proportions in comparison to our peers to see if we feel there's an area where we're under, or relatively under- or over-provided. And you look beyond just the UK as well. We do look across non-UK banks as well, the Australian, the Canadian, and different banking models. But, again, they've been at this a bit longer than the UK banks have done, as well, so we look at that. [Fortunately, the PRA has also been quite helpful in guiding everyone into a more consistent framework. This impacts us as much as others…].

To your question about 'do I suspect significant changes going forward'; definitely less and less. Definitely less. One of the things that may be frustrating is this is a forecast. None of us know. When fourth-quarter GDP comes out and if there's a tick-up in unemployment and a reduction in GDP, we'll be revising our forecasted losses based on the new economic environment, and people will get a bit annoyed that, here we go again, here's another bit of an update. But that's just the way IFRS9 works. We're going to have to get unfortunately a bit more used to the process.

Fahed Kunwar, Redburn

You were talking about leaning into the UK. How much does IFRS 9 and its interaction with the stress tests play into how much you are leaning into the UK? From the last set of stress tests, obviously, consumer lending got particularly hit on IFRS 9. That will come through more.

We don't really know how the regulators are going to treat IFRS 9 in terms of buffers. How much does that put you off leaning into the UK, even if the environment gets a bit better over the next six, nine, 12 months or whatever?

Tushar Morzaria, Group Finance Director
It's a really good question. The key issue there is the single perfect foresight. The stress tests assumes you know everything that's going to happen in the future and take that provision in year one. So, it really magnifies your year-one drawdown. They are looking at that at the PRA. They may or may not change it. I don't know. But, depending on how that's reflected in the stress test result, will be a determining factor for what that means for us.

I think at the moment though it's not a constraint on us. At some point if you grow your books and grow your books, perfect foresight, it's just very logical is becomes a constraint. It doesn't feel like that at the moment. But it's something I know the PRA are focused on at the moment to make sure they've got that right.

Fahed Kunwar, Redburn

Is there any way of knowing how they're going to deal with it?

Tushar Morzaria, Group Finance Director

I'm sure they know what they're going do. I guess we'll find out on December 10th [test subsequently moved to December 16th] when the results come out. We get actually only told the night before, so we don't get much of a preview on this.

Chris Cant, Autonomous

Could I just confirm you're in fact guiding us to expect a sub-£4 billion deficit? Is this the new triennial valuation?

Tushar Morzaria, Group Finance Director

We haven't published it. But I think if you take a £4 billion deficit, and just look at where prices have gone and it's a good chance it'll be below £4 billion.

Chris Cant, Autonomous

Because if I think about, the £4 billion was September 2018, I think, and the 20-[year gilt rate would have been 1.9-2.0%. This September, it would have been 0.8-0.9%]. It does imply pretty much that it's a heck of a change in your discount rate to the actuary. So, that would imply a huge positive move in your asset values, really, really, very large move to say that it's a net reduction.

Tushar Morzaria, Group Finance Director

There're various things that go on there The current rates environment is a headwind that extends out your liabilities. Against that you've got inflation assumptions. Actually the volatility of inflation is a very

important input. It's not just equity prices. There's real estate. There's credit. There's various other things in the pensions. But it is a very complicated animal. But I think all that has been going on - and a lot of that you can't see from the outside. I would say that the pension deficit is [likely to be lower] rather than higher than current market prices.

Chris Cant, Autonomous

And then in terms of the discussion you're having with the trustees, again, maybe it's just me not listening carefully enough, but were you trying to imply that the trustees this time might be less willing, given the better state of the bank, to agree a full ten year deficit-reduction target?

Tushar Morzaria, Group Finance Director

I don't want to say [too much as I don't want to prejudice the outcomes at this point as we are in live] conversations with them. But the trustees, in real fairness to them, have been extremely responsible in terms of agreeing deficit-reduction schedules that work for them and work for us. They've been very, very constructive and very responsible in what they do, and they've got obviously a regulator. So, I don't want to be prejudicing the outcomes of any of this stuff. All I'll say is that the deficit itself is probably at a lower level than the last time we published.

Jason Napier, UBS

This is Jason Napier at UBS. Quite a dull question, I guess, but the guidance around NIM in the UK, I guess, just the fourth quarter to hit about 3% NIM. And while we can all look at the rate environment and see how difficult it is, you've obviously got more insights on front book/back-book spreads and so on.

If things are held constant from here, at what level and when do you hit a trough, just to give us a sense of what the headwind is and strategic actions you'll have to take around costs and volume growth and so on?

Tushar Morzaria, Group Finance Director

It's much harder to answer that, Jason, because there are two, three, actually even four dynamics at play here. We've got the fact that we're growing our secured book quicker than our unsecured book, which hasn't always been the case.

You've got the fact that our hedges will grind in, even if the rates stayed where they are, they're grinding lower and lower. That'll take a bit of time; you've got the margins themselves, which aren't necessarily a function of where the absolute rate environment is; and then you've got customer behaviour.

I'd say in every single one of those categories there's been a headwind for us. Where do I see them normalising? That's a real tough one I'd say. I'd say that we'll probably almost certainly be growing our secured book quicker than our unsecured book for the foreseeable future. But that's just as a mathematical calculation NII can go up in that and should go up in that environment.

With regard to margins themselves: there've been a couple of points where we've got very close on the mortgage side to stepping away from the mortgage market, and it felt like other competitors were facing similar headwinds and margins got slightly wider. So, it may well be there's more consistency in our hurdle-rate application than may appear from the outside.

It may not happen […]. In the fourth quarter of last year I think we got close to hitting what we would call a trough and the market stepped away.

If that holds true I think there's not much more give in the margin, but, that could easily change. It just takes one bank to go through that trough to create problems for everybody else. The rate environment; your guess is as good as mine.

Customer behaviour; that's another slightly harder thing to model. All we've seen is I think this is part of increased digitisation, customers are showing more propensity to refinance quicker into fixed products.

This is enormously different this year compared to previous years. Some of that might be Brexit-related bit of uncertainty that's playing on consumers' minds. But I think there's definitely a part of it that is the ease in which they can look into a new product quicker rather than staying on a follow-on rate. That trend [is likely to keep going].

Anke Reingen, RBC Capital Markets

On the new capital target of 13.5%, why did you decide to increase the capital buffer by 20 basis points? And is the 13.5% really an approximate target and there could be adjustments in basis points?

Tushar Morzaria, Group Finance Director

You've answered the question with your second point. It is approximate target. I don't get hung up on it. If it's 13.48%, so we're below our target. I'd consider 13.4% at or around our target. Sometimes we're very comfortable running a bit lower. Sometimes we might want to run a bit higher. There's definitely a flexible side of that for various different reasons. If we see pro-cyclicality on the horizon we'll want to keep some capital. If we don't we may want to run a lower capital buffer if we want to use it to invest in another business, for example. All those kinds of things. So, somewhere around 13.5%, plus or minus.

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