

Barclays PLC Q3 2021 Results**26 October 2021****Sell-side Q&A transcript (amended in places to improve accuracy and readability)****Tushar Morzaria, Group Finance Director**

Hello, and good morning, everyone. Thank you for joining us. We're unfortunately still doing these in an audio format. We know we had some requests to meet in person, but unfortunately the logistics didn't work this time round. Hopefully next time, we'll be able to do it in person. [...] Anna Cross, Deputy Group Finance Director, whom many of you know, has also joined me this morning to take some questions as well. [...]

With that, let me get going with some introductory comments, just to remind you of some of the key messages that we had last week.

We're pleased with the progress we've made with our diversified business model. Again, in the third quarter, we delivered another double-digit ROTE, 11.9%, earnings per share of 8.5p, and a pre-tax profit of about £2bn, and that takes us to a record pre-tax profit on a YTD basis of £6.9bn, earnings of 30.8p, and ROTE of 14.9%. Particularly pleasing for us is that all three of our reporting segments have had a double-digit ROTE in each quarter this year.

In terms of top line, on a quarterly basis, income increased 5% YoY, and that's against a backdrop of 7% headwind from the depreciation in the average USD/GBP rate. So good income progress in the CIB and indeed in BUK, and that was offset by lower income in CC&P.

Within the CIB, Q3 was actually our best-ever quarter for Investment banking fees, as we picked up market share again. We also had our best Q3 in Equities on a comparable basis, and the CIB delivered a return of 16.6%. The story there for us is more of just underscoring the diversification within the CIB, as we had strong contributions from all lines in our fee business and continuing strength in our Equities business.

In our consumer businesses, strong UK mortgage volumes continued in Q3, with mortgage balance growth of £2.3bn in the quarter continuing the good progress there. We've raised our full-year net interest margin (NIM) [guidance] for the UK bank to about 250bps, at the top end of our previously guided range. That would obviously result in Q4 NIM being in the low to mid-240s, and that's really driven by the mix effect and, as you've seen in recent [weeks], mortgage margins have declined.

Having said all that, we feel pretty well-positioned for the ongoing consumer recovery. We're seeing very positive trends in both the UK and the US, and in UK payments particularly, as the easing of lockdown restrictions continues to have an effect there.

In terms of unsecured balances, we haven't seen meaningful unsecured balance growth yet, even though, as I say, card utilisation and card activity is pretty strong. UK card balances were flat on the quarter at £9.6bn, although US card balances were up \$1bn, to \$21.1bn on the quarter. Of course, that reflects \$0.6bn from taking on the AARP back book.

And in our Consumer, Cards and Payments (CC&P) franchise, particularly in the US, as we've talked about for some time now, we've got the J-curve effect really rolling in, as costs of opening new accounts and [increasing] card utilisation get frontloaded before we see revolving balances increase. So that's obviously playing out as we speak. But with the AARP portfolio, the Gap partnership coming on in the second quarter of next year, current spend [trends] and card utilisation levels, we feel the foundations are reasonably encouraging as we go into next year.

The other topical subject last week, and maybe today as well, is our sensitivity to a rising rate environment. As you know, generally if base rates are higher and the curve is steeper, that tends to be a good environment for us, assuming that the economy continues to get stronger.

We've provided an illustrative 25bps parallel shift in the curve, where most of it is Sterling. Just to remind you of that sensitivity. 60% gets reflected in BUK, and 40% in the international businesses. And also as a reminder, the structural hedge notional as at the end of September, was £224bn, an increase of about £25bn since the half-year. Given all of these, where the curve is and the size of the hedge, we did guide previously to the structural hedge roll into next year being a headwind. We don't think that will be the case now, subject to the usual caveats of where interest rates go.

A quick word on costs. Costs were flat year on year. Efficiency savings and a bit of a tailwind from FX is allowing us to continue to invest for growth, where we think it's important at this point in the cycle to do be doing that. Our cost guidance remains unchanged. FY21 base costs are expected to be around £12bn, and we are looking, as we've guided to previously, to do some more structural cost actions in the fourth quarter. No decisions made yet, but an area that we're looking at is around the UK bank, in particular, and the acceleration of its transformation.

A quick word on impairments. The impairment charge was £120m in the quarter, lower than previous quarters and certainly than pre-pandemic, very much in line with the lower run rate that we've guided to. There was a net release in the CIB and lower unsecured lending balances in both the UK and the US, reflecting lower charges there.

Of course, the credit environment continues to remain relatively benign. We've continued with our management adjustment of about £2bn, to take into account the level of judgement required as to the uncertainty in how the economy will adjust to the removal of the various government support measures. We'll continue to keep that under review as we see these support measures removed and the effect it has on the real economy.

Just before I open up to questions, a quick word on capital. We closed the quarter at 15.4% CET1, up about 30bps QoQ, and we expect to remain above the top end of our [target] range of 13% to 14% at the full-year. We've guided to some headwinds that will crystallise on 1st January 2022, so if you take into account those technical headwinds, our pro-forma CET1 ratio is more like 14.7%, still well above our target range. Of course, we would expect to be capital-generative through just being profitable each quarter.

Shareholder distributions continue to remain an important part of Barclays' objective here, and you've seen us announce two buybacks over the course of this year (we're partway through our second announced buyback), alongside a progressive dividend policy, and perhaps more details on that as we get to the full-year results. So with that, I'll pause there and [...] open up for questions.

Omar Keenan, Credit Suisse

I have two questions please, one on rate sensitivity: I was hoping you could give us a little bit more colour on the corporate deposits in Sterling that are essentially floating rate?

Presumably, all the Sterling corporate deposits that are floating rate are linked to SONIA now, or are some of them on LIBOR? If you could perhaps tell us how much they are, then we could think about what is up to management action in terms of managing the level of corporate deposits?

My second question is on the Equities performance. I think you made some comments on the conference call that Prime has gone from 10th to 4th, to reach a record in the quarter. I was wondering if you could give us the prime balances behind that, since 2019, 2020 and currently, to give us some idea on how the beta has been reduced there, and any associated revenue figures?

Tushar Morzaria, Group Finance Director

Why don't I take both of those questions, and Anna may want to add a comment or two as well. On rate sensitivity on corporate deposits, rather than giving you the split, as we have all sorts of different types of accounts, both in our consumer and our corporate book, from floaters to term deposits to various other products, what we've tried to do is take our best view as to what we think may happen. It's obviously still hypothetical because we haven't seen any rate rises yet, [and along with them all the societal issues that may arise]. [What we've done is to] let you know of the 60-40 split across the UK and International businesses.

In the International businesses, the bulk of the sensitivity is in Sterling, so most of it comes from the Corporate bank. You can then see our sensitivity is c.40% of that and you know that's pretty much what's in the Corporate bank. So hopefully, that's helpful.

To tease it out in the different product sets and the different behavioural assumptions, depending on whether these are operating cash flows or just excess liquidity, it gets incredibly convoluted and almost unwieldy to come out with disclosure tables on that, so we've tried to keep it more focused and helpful.

On the Equity Prime business, we're pleased with the performance. I don't want to get too hung up on league tables, because we will ebb and flow depending on how other competitors do, but we certainly have seen really good growth in our Prime business, both in balances and, obviously more importantly, profitability and top line.

I've always felt that in our sales and trading activity, particularly in Equities, we were very underweight the financing business, and as many of you will know, the financing business is much more stable in terms of the revenues. Financing spreads, actually, in the Equities complex are at relatively healthy levels, and of course you get the halo benefit from not only financing your counterparties, but also the execution activity that will create, both in your secondary activities, but also participation in some of the primary calendar that we have as well.

We haven't called out Prime balances as such, and I don't think I'll do that on this call, but I think that there's a few things that enabled us to grow that business successfully. There's obviously stuff that is very much specific to us, which is our ability to provide the products and services that counterparties are looking for, and to make sure we market that, and win the various mandates and pitches that we're invited to.

I do think that as the Prime services businesses have consolidated further as certain counterparties have reduced their presence in that business, as a counterparty diversification matter, not being a US bank has been quite helpful in that regard. It doesn't mean you win the business, but you just get invited to pitch for mandates, more so than you otherwise would.

I guess looking out a little bit further in Prime, where I think we've done a really good job is on the more quant and algo fund-type business. But I think we've got room where we can improve on, [for example], more equity long-short type mandates, and we're very focused on becoming as relevant to those. We have a number of them on-boarded but I think there are more opportunities there for us to go after. So rather than giving you specific numbers, Omar, hopefully that gives you at least some of the things that we've been focused on and are thinking about.

Jason Napier, UBS

I have two please. The first one, and I appreciate the sums involved are not particularly large, but I wonder whether there was any colour you could provide around the increasing coverage taken in UK cards in the quarter? Clearly, the arrears numbers are down to almost de minimis levels, so I just wondered why you had an annualised charge rate of about 5% in cards in the quarter?

And then, secondly, you'll be relieved to hear it's a question on rate gearing, I guess the question is I'm looking to understand better how the CIB balance sheet financing costs might change in a higher rate environment?

The reason for that is, if I look at the balance sheet at the end of the third quarter, you had excess deposits versus loans at cost of about £160bn and tangible common equity of another £50bn. So call it £200bn in excess free funds and yet 25bps is only resulting in £275m higher net interest income (NII), so you're effectively only allowing a 14bps increase in yield on those excess deposits and tangible common equity, and full pass-through of higher asset yields to the rest of the deposit base.

It doesn't feel like a particularly big number, and I appreciate it's a hard analysis to do, and the real world might be different, but if the answer is CIB, I wonder whether you could help us understand a little bit better how the cost of running the CIB balance sheet might change in the event that short-end rates were to go up?

Tushar Morzaria, Group Finance Director

Why don't I ask Anna to cover your question on card coverage, and I'll come back to rate gearing in the CIB?

Anna Cross, Deputy Group Finance Director

So in terms of cards coverage, I wouldn't read too much into it. It's not a deliberate increase in coverage. What I'll just remind you of is that our impairment is driven not just by the balances that we have, but [also by] exposure at default, so it's informed by limits.

Customers have been paying down, so you're getting balances being relatively sluggish, being paid off very frequently, but the overall limits haven't changed. Thus, you can get some quirks in the arithmetic, but nothing deliberate in there. We've remained cautious, as Tushar pointed out, in terms of our provided position on uncertainty.

Tushar Morzaria, Group Finance Director

And on rate gearing in the CIB, I'm not sure what more I can say on this to be of help. Going back to Omar's question originally, there are many floating rate deposits in the CIB. Obviously we're in a long cash position, so they're sort of matched against the other side of which is in our liquidity pool. So as short rates rise, you'll get the pass-through effect from the income earned on the liquidity pool being passed through on the liabilities side. Now, that's a sweeping generalisation and broadly, there are of course other products out there, like term deposits and various other things where there is more of a managed rate deposit that will capture some NIM.

The thing that I guess perhaps doesn't come through in the CIB, and we've deliberately not tried to quantify this, is away from the corporate side of the business, in the sales and trading side of the business.

In a higher rate environment, there is the potential that you'd have wider financing spreads, [in particular] fixed income financing spreads. We have talked a lot about Equity Prime, but we haven't talked a lot about Fixed Income financing. We are a meaningful participant in that business as well, and I'd say financing spreads with current yields, are pretty much at record lows, as low as I recall seeing them. So if rates do go steeper and higher, I do think there's a likelihood those financing spreads could widen, and that could be quite a good place for us to be.

... You could also see a scenario whereby bid offer spreads in some of our rate-sensitive products, whether it's securitized products, vanilla rates or rates trading, widen there. Obviously, there's a volume equation on the other side of that that we have to consider, but it has the potential to, again, be a relatively profitable environment for us.

I think the other interesting thing will be if the curve is (which again we haven't tried to be too clever in quantifying here) steeper and on the backdrop of a healthy economy, what happens to those corporate cash balances? Is there a drain of liquidity out of the system? Are folks putting their cash to work in those corporations in various forms of investment or anything like that? So, it gets quite difficult to model with a high degree of certainty.

We've tried to keep it relatively straightforward, and say it on a confident basis, by just rolling our current balance sheet through where we believe our best guess and pass through assumptions at this point, across the various product sets. That's the rate gearing that we expect to see.

Jason Napier, UBS

As a follow-up, in simple terms, we could probably guess what happens to CC&P in a high rate environment because you've got higher financing costs on transactors. In a higher rate world, does NII in CIB go up more than volume growth, if spreads are stable, or less?

Tushar Morzaria, Group Finance Director

That's a tricky one. I think that's a tough one to be categorical on. On volume growth, are you talking about Corporate or Investment Banking?

Jason Napier, UBS

It would be Investment Banking and Markets, I think.

Tushar Morzaria, Group Finance Director

Volume is as much a function of volatility of asset prices. We tend to see, as markets move, that volumes tend to increase. You could have in theory, a high rate environment with no real movement in asset prices though, you'd have potentially low volumes. Even though the bid-offer spreads may be a bit wider, you may still be in a low volume

environment. But I don't think that's necessarily correlated to the level of asset prices. It's more just the volatility of asset prices and volumes really.

Jonathan Pierce, Numis

Can I just ask you as a quick follow-up on this NII sensitivity again, please? Could I just check that the numbers you're giving us here don't assume any movement in potential spreads on the asset side in terms of mortgages? And actually, whilst I'm on the subject of mortgages, could you maybe give us a bit of an update on how low you're prepared to write new mortgage business moving forward, particularly following the big ramp-up on swap costs that we've seen.

The question that I was going to ask, though, was on risk-weighted assets (RWAs) over the coming quarter. I think in Q3, we had a negative pro-cyclicality contribution, as in the second quarter. There was another big drop in market risk, which I think we had been led to believe at Q2 would maybe start to pick up a bit into the second half, but that's not happening yet. And the other piece of this jigsaw that it would be good to get some help on is op risk. I think it's a Q4 update, and obviously, the revenue growth in the higher coefficient investment bank has been pretty stellar in the last few years. So, if you could give us a sense of the scale of those sorts of items in the coming quarters, that would be helpful.

Tushar Morzaria, Group Finance Director

Why don't I take the question on RWAs, and I'll ask Anna to talk about the pass through assumptions on the asset side for NII. Do you want to go ahead, Anna?

Anna Cross, Deputy Group Finance Director

Sure, in terms of our mortgage book, clearly a huge proportion of UK mortgages are now on fixed rate. [That means that] we are not going to see any immediate impact to those customers. We also have a tracker book that would move directly in line with any change in base rate. To give you a view as an industry matter, I think about 80% of the UK is now on fixed rate, so it's really significant.

We expected mortgage volumes to drop back after Q2, when the stamp duty incentive started to fall away. That is what happened. We also expected that we might see a narrowing of margins, and again, that is what we have observed and that's coming from two factors. Firstly, demand has clearly dropped, although it remains, as an absolute matter, relatively robust. Q2 was just a stellar quarter, as a market matter.

Go back and have a look at the history, but I think [demand in Q2 was] one of the highest since 2007. Demand [has since] dropped back and that has left lenders looking for growth, particularly at a point in time when there's a lot of liquidity in banks. I think the second factor is the rise in swap rates. Whilst we've seen some moves in mortgage pricing, they tend to lag the changes in swap rates.

What I might expect to happen from here is that in a rising rate environment, we tend to see higher re-mortgage activity. Hence, I would expect that demand for re-mortgage might pick up, [which actually] suits us. It's a business that we do very well in. In summary, I think the rise in swap rates will probably provoke some pricing activity and will certainly provoke some demand activity in the mortgage market.

Jonathan Pierce, Numis

Can I just check in terms of the sensitivity, obviously for years one, two and three, the benefits to the structural hedge of a 25bps increase in the yield curve is pretty mechanical and linear. I'm just wondering whether there is an offset in the other direction as you've assumed that the 25bps increase in the two and the five year part of the curve has some depressing effect on new mortgage spreads as time goes on. Or have you left the asset side of this completely alone, and this is entirely the structural hedge and the deposit revenues?

Tushar Morzaria, Group Finance Director

Yes. It's the latter. Obviously, this is looking at it from an external perspective, so yes, it's the latter, rather than offsetting any mortgage margin by the increase in swap rates. Shall I just cover your question on RWAs? You're right about the negative pro-cyclicality in RWAs, or at least reducing RWAs in the third quarter.

It's certainly lower than I would have thought. Obviously, I guided to it being a firmer RWA number at the half-year results for the third quarter. I think what we've seen there, which you correctly pointed out is the lowering of market risk RWAs due to some technical effects, though. It's really the way the time series works in our value-at-risk component in general Market Risk RWAs.

I think you should see, all other things being equal, as those time series effects roll down during the fourth quarter, a reversal of that, hence, we're guiding to a firmer level of RWAs. There are a couple of other more minor technical changes that will put a bit of upwards pressure on there. You mentioned op risk, which will get recalibrated in the fourth quarter and obviously, you mentioned we've got firmer revenues, so we'll see where that goes [in terms of] calibration.

All of that leads me to think there is more likelihood of a firmer level of RWAs in the fourth quarter, relative to the third quarter than we typically see. I think that's a combination of probably lower [RWAs] than we would typically get in the third quarter and just some very modest technical headwinds in the fourth quarter. Not hugely significant, but certainly headwinds that will be over and above the below normal level that we were carrying in the third quarter.

Gary Greenwood, Shore Capital

I've got two questions, if I can, please. The first one is on share buybacks. I hear you talking about share buybacks being a continuing part of the capital return strategy, which suggests to me that it's going to be something that we should expect to repeat going forward. I think previously, you've talked about share buybacks and trying to take advantage of an undervalued share price, which would suggest a more aggressive approach to buying back stock. I just wondered if there was a slight change in the messaging and the way you're thinking about share buybacks there?

And then the second one, again on rates, but just trying to play devil's advocate really on this. In terms of the rising rates, we've seen [them] generally as a positive at the moment, I was just wondering what the rate environment needs to look like, in terms of rate increases, before you start to get concerned that it could have a negative impact on volume growth, and then ultimately, on impairment levels as well?

Tushar Morzaria, Group Finance Director

I'll ask Anna to comment on what level of rates, whether it's affordability or impairment type concerns, etc., but let me cover share buybacks briefly. I'm not sure there's a change in messaging. We've had our dividend policy out for, I can't remember when we published it, probably around the full-year results last year, but essentially, it's a progressive dividend.

We've guided to the 2p interim dividend, approximating a third of the full-year dividend, and we would expect that to grow in subsequent years on quite a progressive basis, so on a healthy clip. Over and above that, we expect to be net capital generative, so we will have further capital that we'd like to get back into shareholders' hands.

At this moment, it feels like share buybacks are the most efficient way to do this, definitely, looking at where we think the shares could be, and where they are at the moment. We expect to do this on a regular cadence. We did an announced buyback and a full-year dividend at the full-year results and an interim dividend, and a buyback at the half-year results. That probably gives you a sense of the cadence that we work towards.

I think the other thing I would say is, perhaps [aiming to be] repeatable and predictable. A steady march, rather than an up and down in terms of quantum and size, and more consistency. We think that getting that consistency, reliability and repeatability is worth something to shareholders, particularly as they look forward at the capital distribution potential of the company, rather than, potentially, the yo-yo effect of higher announced buybacks and lower announced buybacks through different points in the year. Hopefully, that gives you a sense of how we think about it, but really, no change in emphasis with regards to importance or cadence. Anna, do you want to cover rates?

Anna Cross, Deputy Group Finance Director

Sure, thanks. You're right, rising rates do impact customer affordability, but before we extend lending, we do stress customer affordability quite extensively. To give you an example, in mortgages, we'd stress them beyond 6%. So, that's a robust test that we do. The kind of rate rises that we're talking about here would certainly keep us below that as a headline rate.

I'd also remind you of the point I made before, which is that in the UK, most mortgage holders are on a fixed rate, so they would be insulated from any rate rise for a period of time. Albeit in two years, they'd be back in the market at that stage. As a card matter, our card book does respond directly to base rate increases. So, as base rates increase, we will fully track that, but again I'd just call out that our card balances have fallen significantly through the pandemic. We see our customers continue to pay down very strongly. So, I would agree with you, there will be an impact, but nothing of scale or of immediate concern.

Gary Greenwood, Shore Capital

Just coming back on the buybacks and the capital levels, do you have a timeframe for getting back into the 13% to 14% range?

Tushar Morzaria, Group Finance Director

No, we haven't put out a date yet. We'll probably talk a bit more about the pathway at the full-year results. But it's our stated objective to get back into the target range and although we're still going through the adjustment process in gearing up for the post-pandemic economy, we would stay above that range for now. But I think once that's cleared away, perhaps once the Basel IV consultation paper is out from the UK and we get a sense of what dates are at that point, I think we can be very clear on when we expect to get back into our target range.

Our objective is to get there on a steady basis and on a relatively timely basis as well. We're not anticipating staying above our range for a considerable amount of time.

Guy Stebbings, Exane BNP Paribas

I had a couple of questions, one on Transaction Banking. It looked like a good performance in Q3 with good momentum in wholesale payments and perhaps FX, and maybe some transfer pricing that is in play. But I'm just trying to gauge whether the £430m printed in Q3, so £1.7bn annualised, is a sensible base from which to grow from or if that's a little too optimistic? I'm conscious that in Q4, historically, [that] tends to drop a little bit lower. So, any colour around that would be useful.

And then on Head Office, income has been quite volatile. The loss was elevated again in Q3, so I'm just trying to gauge what the normal should look like in Head Office going forward. Hedge accounting and negative treasury items are ballpark £200-300m combined per year, hopefully, perhaps nearer £200m. Is that fair and should that drift slightly lower YoY?

You've then got the Absa dividend, which will be what it will be, then the legacy instruments drop away at the end of next year. So, it feels like maybe -£150m come 2023, maybe a bit better, depending on the size of the Absa dividend. I'm just conscious that consensus is somewhat more negative and there isn't much of a drop in 2023. So I'm trying to gauge if that is conservative or as the legacy items fall away, maybe they just get eaten up by other movements?

Tushar Morzaria, Group Finance Director

On Transaction Banking, we're pleased with that performance. Obviously, it's a reflection of activity levels and we had a little bit of benefit from a slightly wider NIM on the cash management side. The rate sensitivity in the Corporate bank will actually be expressed through that line. That's where the operational deposits and excess liquidity that clients leave with us will be reported.

I think you're right to be a little bit careful not to just multiply Q3 by four, just because of the seasonal effects and calendar day count effects that we have in different quarters. But, we're generally pleased with the performance and it's a reflection of activity levels improving. And to the extent there are any positive news on the rate side, it will be reflected in there as well.

Head Office - on the top line, the best way I can be helpful on this is I've always thought about this being approximately -£75m now [per quarter]. Against that, you've got the Absa dividend, which ought to be a positive, hopefully, and I think they're reinstating their full-year dividend, so that should be helpful.

Hedge accounting - it's a little bit messy. Without getting too technical around this stuff, you've got the unwind of hedge accounting relationships, all the way back from our non-core activities of yesteryear. That will slowly glide down. You've then got something else called hedge ineffectiveness testing, which is just one of the accounting tests

for our hedge accounting relationships. That has a persistence of zero [over time], so sometimes it will be negative, sometimes it will be positive. If rates go up, it tends to be a little bit more of a headwind for us. And if rates go down, it tends to be a little bit of a tailwind for us. But in theory, it should [have a] persistence of zero.

The unwind of the legacy funding costs will [also] improve, in other words, that drag will be removed. So, -£75m is your starting point, better with the Absa dividend, probably better as the legacy funding costs drop out, plus or minus with regards to hedge ineffectiveness.

Chris Cant, Autonomous

If I could just come back to the rate sensitivity discussion, and maybe come at it through a slightly different lens. Obviously, you're guiding us to expect the majority of the sensitivity to come through BUK. If I look back at BUK's NII progression in 2017 through 2019, it was flat. It was actually a touch down. And obviously we had a couple of rate hikes, one at the end of 2017 and one in 2018. This is the case even if I take the H217 run-rate as a starting point, which is after allowing for the reallocation of some of the non-core stuff, which you did in the middle of that year. So, what chewed up the rate benefit last time around? What was it that offset the inherent positive gearing of the business for the 2017 and 2018 hikes? What's different about those factors this time round?

On a related point, I've also been trying to do some of the same sorts of maths with others, thinking about your sensitivity from a bottom up perspective. Could you give us a sense of what your customer deposits ex-banks, ex-repos are, please? I find it odd that that's something that you don't appear to disclose as a bank.

And if I could ask one on capital. Do you expect your CET1 ratio to be in the 13% to 14% range on 1 Jan 22 pro-forma for any announced buyback? Or do you expect to be above the range on that basis?

Tushar Morzaria, Group Finance Director

I think, on your first one, in BUK, that point that you're looking at, which is a fair way to look at it, was after the Brexit vote in the middle of 2016. And you'll probably recall we took a more conservative position in our cards portfolio. Partly [because] our own defensive stance meant that we were not prioritising that business in the way we had historically.

I think over and above that, you also saw the FCA encourage the removal of persistent debt. So, these were folks that were just rolling interest payments from period to period. That brought down balances as well. I think the rate sensitivity that we may have had expressed fully there, got chewed up a little bit with the dynamics that we had in the cards business. Obviously, this time round, that digestion process of winding down those card balances is behind us. So, hopefully, we'll see those balances grow and you should see that over and above, hopefully, a positive, in addition to any rate sensitivity that may be expressed as well on the back of rising rates.

In terms of your second question on deposits, ex-banks, ex-repo. I'll do what I unfortunately have done in the past a few times, which is I won't throw that number out on a call like this. That's probably not appropriate. But noted that you would find that helpful and we'll see if we can get that number out. I don't really see any sensitivity in getting it out, so we'll see if we can get that out in a maybe a subsequent quarter or full-year, or something like that. I'll just ask the IR team as well, to the extent that we can find anything in our annual reports that may help you triangulate that. Maybe they'll be able to give you a call behind the scenes as well, in case there is something already out there.

CET1 - Chris, I think I can't really answer that question directly, unfortunately. If I did, it feels like I'd be giving new guidance over and above what we did on the earnings call in terms of the potential size of shareholder distributions. So, I'm not sure I can give you a straight answer to that one, unfortunately, in terms of dates. Maybe I'll bridge back to the question that we had earlier about 13% to 14% being our stated target range.

We do expect to march down there, probably on a consistent and progressive basis, rather than in one fell swoop, once we've seen the full effects of the state of the post-pandemic economy, to the extent that there are any further capital headwinds that we need to be able to fully quantify. I can't really comment on what our capital position's expected to be on the back of any announced buyback at the full-year results, unfortunately.

Chris Cant, Autonomous

On the UK NII movements in the past, I totally get the point around the card balances shrinking and I think they were down about £2bn over a two-year period. But if I look back at what was disclosed for the income splits, the same is

true if I just look at Personal Banking rather than a not-Barclaycard consumer in the UK division. The Personal Banking revenues declined from 2017 into 2018 and 2019. Was there something else in there that was a particular headwind to the rate sensitivity?

Tushar Morzaria, Group Finance Director

It's probably the other point that I think is worth talking about. You remember at that time, I can't remember the exact period now, but on mortgage margins, we were almost back to where we are today with very tight margins. What that does is create a negative churn margin. Something we talked about [in the earnings call], that there's a potential for that happening into next year even. You get that downward pressure and you're cannibalising your back book into front book rates at a negative margin. That's the other effect that was quite pronounced then.

Chris Cant, Autonomous

Did you consider that margin differential, front to back on mortgages, to be worse than it is now, or is it about the same?

Tushar Morzaria, Group Finance Director

We're not in negative churn margin as we stand here today. We were in negative churn margin then. That may change in the future, depending on where mortgage margins end up going, but we're in a positive churn margin at the moment. We cautioned everybody before [at the earnings call] about whether we think that will remain there. That's obviously contingent upon where mortgage front book spreads go next year.

Joseph Dickerson, Jefferies

Could you just talk about some of the areas where you're investing in the payments and US consumer lending business, particularly in areas where you're investing in new channels or areas of expertise? That would be very helpful. And then, how are you thinking about the trajectory of those investments and their payoffs over the next couple of years?

Also, when you discussed in response to Gary's question around the capital ratios, it seems like the hurdles are very similar for getting into your 13% to 14% range, as they are for accessing another form of capital that you have prospectively through the £2bn management overlay. I suppose the variance there would be on Basel IV, but can you just correct me if I'm mistaken, i.e., uncertainty in the economy, etc.?

Tushar Morzaria, Group Finance Director

Why don't I quickly answer the question on the management overlay, and I'll ask Anna to talk about some of the investment areas for our US consumer business. The management overlay, as you pointed out, I think as we see the removal of the government support schemes, [which] we're beginning to see unwind, and as we get a better sense of what it means to consumers and corporates, we'll be in a better position [to judge].

We think we need that provision because we think there'll be some losses that our models don't pick up on as a result of removal of those government schemes. So, either we're right and the reserve release will offset those losses or, indeed, we've been too conservative and the reserves will be recycled into P&L and partially into capital as well. That'll be over the course, I guess, of next year.

The [other] thing a lot of people point to [is] the UK furlough scheme, which is important and is being removed as we speak. You've got to remember in the US as well, we've got enhanced Social Security payments and the CARE Act with extended unemployment benefits and stuff like that. That actually persists a bit longer in time than some of the UK support schemes. It'll be a rolling thing, but hopefully that gives you a sense of the shape of things to come. Anna, do you want to cover the investments in the US?

Anna Cross, Deputy Group Finance Director

Yes, sure. In the US I think about it as two broad strands of investments. The first is in the cards business itself. That's investing in, restarting if you like, the balances you already have, plus investing in capabilities around the new partners that we're bringing on. Particularly in relation to Gap, that's our first foray into store cards. That requires us to build

some capability [before] and we will then be able to offer more broadly, and very importantly it exposes us to at least as many customers - it broadly doubles our number of customers in the US.

I would say that the US cards and the point of sale finance [businesses] are really quite different. I contrast that with the UK because in the US you've got a very strong tradition of rewards. That means that the credit card product is very much a lifetime product. It's a relationship product. Where that contrasts some of the point of sale activity is around, introducing frictionless purchase and really facilitating purchases for retail partners.

Having said that, we think it's really important and you should expect us to use it as a potential entry point for customers to establish credit and to deepen our relationships with those retail partners. We've announced our partnership with Amount, which is a state of the art point of sale platform, and we will bring solutions to market with that. So, that's probably our first foray into that environment.

The other thing I would say is even within the cards, there are opportunities to structure particular transactions differently, almost a sort of instalment within the card [transactions], if you like. In October this year, we extended that to our Frontier Airlines partnership, [allowing] customers to split the transaction [into instalments]. We think they're all really good innovations and it takes us into slightly different market areas, but are still very closely linked to our partnership model.

Benjamin Toms, RBC

Chase are now in the [UK] market with a pretty good debit card offering and it looks pretty attractive relative to what's being offered by the large UK banks. Do you spend much time as a management team looking at what they're doing in the UK retail space? As far as you're concerned, is this a long-dated story operating around the fringes of the UK banking market, or is it a real threat to the core business in the relatively short term?

Tushar Morzaria, Group Finance Director

I think when someone like Chase comes into your backyard, you've got to take people like that very seriously. I can't say we spend all day and every day thinking about that. Obviously, it's a greenfield [operation] and it'll take some time for them to get scaled up and running, but we should never underestimate folks like that. Obviously ring-fencing in the UK sets a sort of a natural inflection point as to how big someone like that wants to get.

You've seen that with Marcus where as soon as you approach ringfencing levels, there's a pause. The friction of running a ring-fenced UK bank with all the [regulatory measures] that entails and the friction that that creates, in terms of the cost of running a business, is a natural inflection point. Whether some of the international competitors want to create full-on ring-fenced banks and make it a strategic imperative to grow in the UK in the same way Santander did, I think remains to be seen, but I think we're some way away.

Obviously the real thing with all of this is what the asset-led strategy is. At the moment on the liabilities side it's somewhat easier [to observe], but it remains to be seen as to whether they've got an asset side of the balance sheet that they're prioritising as well or whether it's a payment service or something like that. So, early days, but we'll be spending a lot of time looking at what they're up to and ensuring that our business remains relevant to our customers.

Robin Down, HSBC

Just a couple of quick questions. Sorry to belabour the interest rate sensitivity point, but I think you mentioned earlier, or your colleague mentioned earlier, that on credit cards there was a direct linkage to base rates. Historically those, I think, have been managed rates. Is the entire UK card book now directly linked to base rates? Will we then effectively see a bit of a margin squeeze there because obviously revolving rates have come down and financing costs will grow roughly twice as fast as the yield on the performing book?

Second question, really around what you just said previously about the mortgage churn rate. If I look at your current mortgage pricing and where five-year swap rates are today, it looks like new business is being priced at around a 50 or 60bps spread on a five-year, 75% LTV mortgage. Yet if I go back five years ago, the spread would have been twice of that. Is that a comment that was based around Q3, or is that a spot comment as of today?

Tushar Morzaria, Group Finance Director

Why don't I pass them both to Anna. One is the transition effect in base rates into card margins. I think if I got the last bit of your question right, you're asking about whether the comments we made on churn margin were a spot comment or a through-the-quarter comment?

Robin Down, HSBC

Yes. If I just look at today's pricing and today's swap rates, I'm struggling to see how your current new business is being made at higher spreads than, say, five years ago, or similarly on the two-year products.

Anna Cross, Deputy Group Finance Director

The entire UK credit card book tracks base rates. It's nothing more complex than that. If base rates go up, then the cards rate will follow that directly. Hence, no complexity there at all. In terms of your mortgage question, the comment was a spot comment - it's what we observe right now. Clearly what's rolling off of the back book, will be a blend of pricing from between two and five years ago. Market pricing has been pretty volatile over the last few years, so it's something that we look at very, very closely and it can actually change month on month. Not just as much by what we're experiencing as front book pricing, but literally by what's rolling off and when it was written.

Robert Noble, Deutsche

My question's on CC&P. The non-interest income line in there has declined, which I think is mostly [due to] currency [impacts]. But you talk a lot about payments growth so why is the non-interest income line not higher there? The sense is that it comes through as negative revenue and perhaps you've talked about it on cards, but I presume they impact the NII line, not the non-interest income line? Linked to that, how quickly do you expect the pre-provision profitability to grow in CC&P? Should we expect a substantial pickup in 2022 or is it longer than that?

Anna Cross, Deputy Group Finance Director

What you're seeing there is that much the impact of the J-curve and some of the reward costs that we would associate with expanding the cards franchise in the US, coming through on that line. That's all you're observing there. In terms of growth, I think we've talked about CC&P as a US cards matter, [where we are] really encouraged by the early signs there. Whether that be the acquisition of card customers, [which is] very strong, actually above pre-pandemic levels. Spending rates [are also] very strong. Those are the first two lead indicators, if you like, that we're very encouraged by.

At the moment we haven't seen significant growth in balances and that is purely because customer repayment rates are very high. But in terms of the lead indicators there, they are good. Elsewhere in CC&P, we still see opportunities in our acquiring and issuing parts of payments. In acquiring, that's really a function of payment volumes in the UK, but also margins. We've seen payment volumes come back pretty strongly in Q3. They were above the last "normal" year that we would've seen, so 2019.

There's still a skew in those payments - that means that the margin is probably a little lower than we've historically experienced right now and we would expect that to come back. That margin's impacted very much by the mix of spending that customers undertake. Typically the more non-discretionary purchases are associated with a lower margin. For more discretionary purchases, like travel, we would expect those to have a higher margin. So, I would hope the margin tailwinds to come there. And some of that is the strategy that we talked about before, expanding our reach into the SME market. We have a higher market share on corporates than we do in SME.

The other thing I'd call out is our e-commerce gateway capability. It's very new for us, but it's something that's growing well and again, additive from a fee perspective. On the other side in issuing, it's got very similar characteristics, actually, to some of the things we've talked about in UK consumer cards, if you like. Spending coming back, but not yet really being boosted by travel. You'd expect that to respond to the same increase in travel and the same return to office [trends] that we've talked about elsewhere. [Overall, there are] some really good positive tailwinds in CC&P, but I would just remind you of those J-curve effects as we restart the business, particularly in the US.

Robert Noble, Deutsche

Why do the reward costs go through the non-interest income line? Should they not be offset against an effective interest rate in the NII line? Are there any reward costs within the NII line, as well?

Anna Cross, Deputy Group Finance Director

There are also interchange fees too. That's maybe something we can spend a bit of time with you on if you'd like to go through that in a bit more detail.

Tushar Morzaria, Group Finance Director

I think that's it for today. Again, please do submit your feedback. Our colleagues in investor relations say they will try and make this an in-person one for next time round, but [if there are] any other ways in which we can improve this, we're all ears, as we always are. With that, we'll sign off. Thanks for joining us and stay well everybody.

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