Barclays PLC Q3 2020 Results

26 October 2020

Sell-side breakfast Q&A transcript (amended in places to improve accuracy and readability)

Tushar Morzaria, Group Finance Director

Good morning, I'm also joined here today by Anna Cross. Anna's the Deputy Group Finance Director, and is quite involved in helping put the results together, so I may hand over to her on a few questions.

I'll just make a few opening comments, then we'll open it up to Q&A.

We were pleased with our performance in Q3. We think it's another quarter where the diversification of our income streams came through. As a consequence of that, we have been profitable in each of the first three quarters, which is important to us to demonstrate the value of the diversification, with different things happening in different geographies, different products, different lines of business.

We're pleased with our provision levels. We took a much lower charge in Q3 of £600m versus £3.7bn in the first half of the year. We'll see how that goes for the rest of the year.

Again, capital progression we were pleased with. I think it's better than we had guided to during the course of the year, at 14.6%, and we'll come back to some of the drivers of that and where we'll go in the future.

The other thing I'd point out, and we did put a slide out in Jes's earlier section. Net interest income is definitely going to be a headwind given the rate environment, compared to previous years. It's worth pointing out for Barclays that our net interest income as a percentage of total income is probably at the lower end of our UK peers, at 37%. So while we'll have the very same headwinds that many banks will have, it's a smaller percentage of our top line than some others.

In terms of outlook, we did say that we expect some improvement in Q3 versus Q2 in terms of our consumer headwinds, but from this point on there remains some uncertainty. I think in the UK, it's very much going to be driven by the rate environment. Obviously at low swap rates, we've still got the grinding down effect of our structural hedges. Depending on where those swap rates are, that could be a meaningful headwind that we'd have to digest over the course of this year and beyond.

In addition to that, UK cards balances are obviously still substantially lower than they were, year on year, with still 19% lower interest earning balances there. I think it's going to take some time for those balances to start growing again, so that'll remain a headwind very much into next year. On the positive side, we have seen quite strong mortgage activity with decent pricing levels. It does take time for that to flow into net interest income, although that's definitely a positive and definitely our market share is improving there, which we're pleased with.

Q4 NIM [is expected] to be similar to where we were in Q3, so that's hopefully helpful for you. Given the points above, that is under pressure going into 2021. You've got the structural hedge headwind […], and the good news is that mortgage will grow and at better margins that we've had in the past, but just as a mathematical matter that is dilutive to the reported NIM.

On CC&P, we've also talked about a good recovery quarter for us, but the outlook remains uncertain. Similar to the UK, I think it's going to take a bit of time for card balances to grow. I think Thanksgiving and Christmas will be important, on the spending side. On the positive side, we have seen spending improve in Q3, and of course that is helpful given the interchange fee in the US, and indeed our merchant acquiring business here in the UK. But we'll see where that all works out, given lockdowns and various other restrictions in consumer activity.

Moving on to impairment, we did guide to the H220 charge being materially lower than that of H1. That's with the usual caveat, so when you do the modelling for yourselves, that is assuming no real meaningful move in macroeconomic variables, [no] meaningful large single-name idiosyncratic issues in the wholesale credit book, and no real change in the effectiveness of government support schemes. We'll see how those play out. That's obviously a moving target as well, as new schemes are announced, certainly in the UK. But if it's stable on those three fronts, then the starting point for your modelling could be something similar to Q4. Obviously, if forecasts around the economy deteriorate, then that may result in a further book-up, but we will see.

We also guided that [impairment in] 2021 [is expected] to be below 2020. Again, it's somewhat of the same caveat, that's assuming no real meaningful decline, or indeed improvement, in forecasted economics, and the world, if you like, behaving consistently with our current modelling. Of course, if that changes, then we'll have to reflect that in the impairment. This isn't us thinking we've got a crystal ball on all of this, but just to give you a sense of how the mechanics may work.

On costs, we guided that the full year costs for 2020 will be broadly flat on 2019. We're towards the back-end of the year, but subject to the usual currency moves and fluctuations, it doesn't look like that's going to be an issue at the moment, but that's something we put in there. And of course we'll see how performance is for the full year, whether that makes a difference. But again, that should be fine for now.

In terms of 2021 [costs], we didn't give any explicit guidance, but we did talk about the Q4 exit run-rate being higher than we would ideally like, so that puts a little bit of pressure going into 2021. We also talked about evaluating actions that we may be able to take to reduce our structural cost base, mostly around real estate. We're going to be thoughtful and deliberate about this, rather than rush into it. Jes talked about it not being some sort of enormous restructuring amount, and I think he's right around that. I think this is something we will keep under review, but just to put it out there, to the extent we do feel we're in a position to take some charges that improve our 2021 or 2022/23 cost base, when we're ready to do that, we will certainly keep you updated. The flat year on year cost guidance is excluding any such charges that we may or may not take.

On capital, we still think there will be some pro-cyclical effects on RWAs. It looks […] probably more like a 2021 [event] than 2020. Markets still seem relatively well-positioned at the moment. Now of course I would put a whole bunch of caveats: we've got Brexit, we've got US elections, and of course the path which the pandemic may take. Again, very tricky to forecast, but I think we'll be surprised if we don't get some pro-cyclicality. We have had some during the year, it's just our management actions have more than compensated at the moment.

The other thing I would remind people of is there is a stepping down of either regulatory relief that was given on a temporary basis, or just the grinding down as we go through some of these transitional relief programmes. PVA [relief] will go away in the first quarter of 2020, and you've got the step down from the pre-existing IFRS 9 transition relief as we go one year further along, and then of course we will, at some point, expect to see some migration of staging from stage two to stage three, […] which will affect capital level.

There are headwinds there for sure going into 2021. And also, as you're probably familiar with now, we do tend to be comfortable stepping back in capital level in the first quarter. In virtually all cases we've done that, that tends to be a profitable quarter for us, and we're happy to see our capital ratio go back a bit to support returns.

Finally on capital returns to shareholders, there were a lot of press articles over the weekend on that. We don't have much to say at the moment, apart from that the Board does recognise the importance of returns to shareholders. We'll update everybody at our full-year results in February […].

Benjamin Toms, RBC

Two questions from me. On slide seven, you showed the impressive market share gains the IB has made over the last couple of years. I was just interested in whether you think the investment bank will make similar gains over the next couple of years? Or has all the low-hanging fruit been taken, and therefore holding current market share is really seen as a success?

Secondly, in terms property costs at the Group level. You talked a little bit about restructuring, and presumably some of that will go towards reducing your property costs footprint. Proportionally, if I split the property costs between head office and branches, how should I think about that? Is that roughly half and half? Or is there more weighting towards the branches element?

Tushar Morzaria, Group Finance Director

In terms of IB market share, I'm not sure there's ever been any low-hanging fruit. Many of you are in the business as well, it's a super-competitive market and there's no lay-up for the business. You've got to fight hard to be relevant to clients and get their flows.

What's worked well for us, is the three-pronged strategy that we've talked about in the past, making sure we've got the right financial capital to be competitive.

[Firstly,] we felt we didn't have enough leverage deployed in the business, which is particularly helpful to our financing businesses, and that has paid dividends. Prime activity has increased and it's much more annuity-like in a more volatile markets line, so it does provide a little bit more certainty and very low risk. It's definitely expensive as a leverage matter, but extremely efficient [as a CET1 matter], so that's been a good journey for us.

Secondly, human capital [investment] began when we had to restock the seniority of our Markets business, which we've really been under-investing in for some time, and this is [people with] 20-30 years sales, trading and risk experience. We are done with that. As you'll know, we have moved our Chief Risk Officer, C.S. Venkatakrishnan, to run Markets. I would put that into the usual way that we would rotate our talent around the company. Stephen Dainton has done a terrific job since he's been carrying the ball on [Markets], and a lot of the benefits or the improvements we've had this year are down to Stephen and the existing management team. They've had a really good run.

The third thing is technology. [For various reasons,] we probably under-invested on things like [dark pools] and our FX platform (which was probably one of the better ones around in the earlier part of the decade) […]. For one reason or another, we've under-invested there, but we've been playing a pretty reasonable catch-up and that has helped our flows.

Prospectively, it's the same again really. I do think that there are perhaps two other more secular, structural changes that have been of benefit to us, which [some people have been sceptical about] until you see the empirical evidence of it.

One is that, as you have seen more concentration towards US counterparties, is there a play for those who want to diversify away from just having US counterparties? Is that helpful to us? I believe that has been helpful for us this year - that's certainly what our data seems to suggest. Again, I would be careful, I wouldn't overstate it. No business just falls in your lap, but [at the margin] you probably get a bit more of a reverse enquiry and more of an opportunity to pitch for business than we would have otherwise got.

[Secondly,] I think you are seeing perhaps a concentration of market share consolidating in the big six or so participants, the five Americans and perhaps us. We'll see when everybody reports this time round, but it does appear that […] as other institutions have rotated capital away from this business, when you have more business to go round, it gets concentrated in the remaining participants.

[…] We'd like to continue to improve our market share. It's certainly not something we should take as a given. It'll be pretty hard, just as it has been, but hopefully we'll be able to continue to make some improvements. Hopefully these two structural changes that have happened over a period of time will be, at the margin, helpful for us in that regard.

In terms of property costs, yes, branches you'll be very familiar with. I think there is still scope for us to think about reducing our branch footprint further in a way that makes sense. Again, we've got to be very thoughtful and deliberate here. The idea of branches in provincial towns having less footfall and less value compared to more main-line city centres… of course footfall in cities may or may not change as a result of this pandemic […]. We've got to be really thoughtful on this, and we're always a bit careful that we're not going to make snap decisions until we understand the long-term consequences of customer behaviour.

On head office properties, […] I assume you mean large headquarter-type buildings like 1 Churchill Place, our Manhattan headquarters, as well as 5 North Colonnade here in Canary Wharf. In terms of the split of cost base, it's probably quite evenly spread. The branches, we have hundreds of branches, so it does add up to a meaningful amount. Our large buildings, we probably have more real estate in London than I think we would ideally like, and I'm talking about head office or large buildings. Depending again on how the pandemic goes and how working behaviour goes, we may have too much in Manhattan as well.

On the flip side, we also have large campuses away from those two cities. We've got Glasgow, we've got lots of large centres in India, in Pune, Delhi and Chennai, and we've got a large support centre in Whippany, New Jersey, […] so I think we're going to look across the whole of that campus. But again, we'll be thoughtful and deliberate about what we need to do and when we need to do it.

I can't stress this enough, we are cautious about not making too many quick decisions without understanding the full ramifications of ways of working and what it does to our business, both customers and support staff.

Raul Sinha, JP Morgan

A couple of follow-ups from my side. The first one is going back to the discussion on the [management] call around cost: income ratios. [...] Jes [said that] the CIB cost: income ratio is not likely to change a lot, so I'd be interested in further colour on what are the drivers within that? How do you manage that? What gives you the confidence that you can manage that?

Linked to that, maybe on BUK, I think a number of people asked this question in different ways. With the UK retail bank cost: income ratio at 71%, [what is] your current thinking around major restructuring and significant NII headwinds? Does that mean that the 70%-type cost: income ratio is here to stay in the UK? And obviously linked to that, what do we think about the Group's cost: income ratio target?

And then […] on the cards business in the US, […] as a management team, [are you] thinking about how quickly you want to grow in the US cards business? [Can you] briefly elaborate on what sort of competitive advantage you think Barclays still has in that business? I think that's an area of investor concern, given how easily some of the banks like Goldman has taken [business] away.

Tushar Morzaria, Group Finance Director

On the cost: income ratio for the CIB, I think Jes's comments depend on what you assume on the top line. He's not assuming any enormous decline in the top line. Like all forms of banking, there is a reasonable chunk of fixed cost and then you have a variable component over and above that, more true in the CIB than certainly consumer-facing businesses. I think for localised moves in income, there's a case to be made, and we should be able to hold our cost: income ratio flat. If folks are thinking of a dramatic reduction in income, then the variable component won't move in tandem to that, and that probably makes sense to most people.

One of the reasons for that […] is the European regulations around remuneration for European banks. We have this 2:1 ratio of fixed to variable, which really just means that our variable pools, although they vary, they are so much smaller than our US peers, so we end up with a much larger [fixed] cost base. We can flex those variable pools within those localised levels, but if you get significant movements, then that becomes harder to offset, because you start getting into your fixed pay, which you obviously can't move [quickly].

We have been pleased with the ability to manage the IB costs on what has been a very strong top line performance. I think that's the benefits of a lot of previous years' work coming through that's allowed us to have a much better cost base and variable component thus far. [Looking at] full year, when we look at performance and what pay levels will be in that business, they should all be in the mix of our broadly flat guidance, and that's been good for us.

I will talk a little bit about US cards, and then I'll hand over to Anna on the UK. On US cards, I'm not sure the advantage we've had has in any way gone. A good example is we just won, and we just announced it on the call, AARP, the American retirees, card programme. I think it's got c.30m+ retirees there, and we won that from Chase, and they're obviously an extremely serious competitor and world-class in this business.

So it's not that we can't compete, it's not that we haven't got an edge. Very much the opposite. That is a pretty decent returning business, as you saw in the third quarter, with a profitable double-digit returns as impairment drifted down. We are probably over-concentrated though in the leisure, travel, entertainment space, and that is going to take a little bit of time to recover. But history tells us, whether it was 9/11 or any other shock to the system, [consumer activity] does recover, and when it does recover it recovers quite well and quite strongly, so that'll be the central case here.

We are looking at ways of diversifying - not just away from partnership business, so in other words [looking at] different types of retailers. We have some diversification there, NFL and various other things like that, but perhaps we'd be inclined to have a greater diversification than we have at the moment. I think where we have not been successful in bids, quite frankly we can't make sense of the numbers, so time will tell whether someone else has a structural advantage, or whether our numbers were right. We just don't see how you can make money with that credit profile, with that set of economics.

We have had experience in this. We've talked about it in the past, when we grew that business from 2010 over the course of this decade, and we certainly did get locked into some pretty awful contracts. It took us a long time to get out. We were fortunate in a sense that the mistakes we made weren't big mistakes. They weren't concentrated in our book, but I can assure you when you lock yourself into a five to ten year contract and you misprice it, and the economics don't make sense, it is a miserable experience and it's hard to get out of these things. So we're very cautious in terms of pricing and discipline from the experiences that we've had. Where we haven't been successful, it's a bit of a head-scratcher to us how people think they can make money on that, but maybe they've got something that we haven't.

The final thing I'd say on cards is we do look at things like point of sale finance or instalment lending. It's quite an adjacency in terms of revolving credit. It does seem that consumers, particularly at the young end, seem to be much more interested in easy-pay options rather than revolving credit. That's something that we can do, and we'll talk more about that in the quarters to come. In Germany, the UK and the US we're exploring those options, and we'll be talking a lot more about that at the full-year or beyond. With that, I'll hand over to Anna to talk about UK cost: income ratio and give you a sense of how we're thinking about that.

Anna Cross, Deputy Group Finance Director

When we look at the UK, and Q3 in particular, we have seen some stabilisation in the income line from the cessation of customer support initiatives and the repricing of deposits, where obviously you get the timing difference between the movement in base rate and how we react. Tushar also talked about the build in our mortgage business.

Having said that, if you look forward into 2021, there are definite headwinds for this business that I think we called out to you before. We've already got fully compressed deposits, and we also called out the reducing level of structural hedge income. Where we do see mortgage growth, typically it's at lower margins, and you certainly get the mix impact, where we're not seeing unsecured business grow, but we're preferring that secured business in the current environment.

So the income line is definitely challenged, and I would say that's probably, in a low-rate environment, an industry structural challenge not only to our cost: income ratio, but also to those of others. We're very focused on both improving the ratio through incremental income opportunities and the cost base. I'd encourage you to think about the cost base of the UK as being largely structural. It's composed pretty much of our platforms, so our IT base, our property, which I think Tushar's touched upon in terms of the branch network, and indeed the people that we employ.

We are focused on reducing that cost base over time, but given its structural nature, that typically requires investment. As Tushar said, we're reacting and considering the impacts of COVID-19 on how we should operate this business, so you should expect us to continue to make changes, but they will be over time rather than necessarily immediately.

Tushar Morzaria, Group Finance Director

It's a real thing that we're focused on, but BUK probably has a more fixed cost challenge than the CIB. [We'll update you] on how we drive it down, but our objective is to drive it down given the income headwinds, and we'll keep talking to you about how we expect to do that.

Jonathan Pierce, Numis

Two questions […] on capital movements. This PVA movement, I think PVA peaked at £1.8bn in the first quarter, we're now down to £1.2bn, which I guess is almost entirely due to these aggregation factors. Is that the sort of scale of the move back up we're going to be looking at early next year?

The second question, just confused really, why was there an almost 10bps negative impact on capital in the third quarter from share reward costs? I didn't think you were able to go into the markets and neutralise any of these things at the moment, so I'm just confused as to where that's come from and whether it's going to repeat?

Tushar Morzaria, Group Finance Director

[…] On PVA, I'll give you a broad range. It's probably not that helpful for you, but probably in between the 10 to 20bps range, so a little bit lower than the £1.2bn that you were referencing, but in that sort of range and that would be in Q1.

On the share rewards, it's not recurring, so there's nothing new and repeating going on there. It's just the regular way in which [we account and put] the share rewards issues through our capital line, but there's nothing repeating there. There's nothing new you need to model for forward planning on that.

Alvaro Serrano, Morgan Stanley

On costs, I understand you've already talked it through, but just taking a step back. Your costs in BUK, which is obviously the focus, up 15% year on year in Q3. The other banks haven't reported, but the expectation is certainly for all the other banks to still be on a downward trajectory in retail. My impression is you've all taken similar measures around freezing headcount reductions, so can you give us a bit of colour on […] why your cost trajectory is so different from the others? And maybe then we can infer something about where your cost-cutting efforts are - is it technology? Is it you're structured in a different way? Just curious to understand why there's such a difference.

On Markets and the IB in general, I don't know if you can give us a flavour on the pipeline? […] Obviously this was a very, very strong year, so any thoughts on what you think might stick versus what's purely volatility? Just maybe some handholding on how to think about it in Q4 and next year, both in Markets and banking fees?

Tushar Morzaria, Group Finance Director

[…] On Markets, the way we think about it is, we'd be disappointed if we're not able to at least maintain the market share gains that we've had [with repect to sales and trading]. […] You probably have your own views on what you think the full year wallet would be for 2021, and then the starting point […] is to maintain our market share [at the very least], and we'll look to improve on that.

[Markets] is a cyclical business, it is tricky to forecast so far out, but one of the reasons why it's been a good business for this year gone is there have been plenty of reasons why financial markets have had a degree of volatility. It does feel like next year there are plenty of reasons why that could happen again. I think we'll still be dealing with the aftermath of the pandemic and how economies are going there. There are further elections into next year. The US presidential election will be behind us, but there may be further policy changes as a result of that, from whichever administration is in and you've got Brexit. There is plenty of stuff out there. Hopefully we may have seen the trough in terms of the industry level revenues and that continues to pick up.

On the investment banking side, we think of it as similar to Markets - the industry wallet and what's our market share of that. We have slipped in market share this year, principally for two reasons that are quite related. We've really been in M&A, and very much related to our acquisition financing. If you look at the balance of our business, we are more biased towards sponsor-type activity and proportionally slightly less biased to general corporate activity. This year, sponsors haven't been very active and corporations have. So it hasn't played much to our strength, and probably even within that corporate activity, there has probably been a bit of a skew to the more new-age industries like biopharma [where] we're a little bit under-represented.

When I look at the third quarter, I think you are seeing parts of that market come back. If I look at announced M&A during the third quarter, I think we were either fifth or sixth according to Dealogic. You'll have to check those tables; I'm forgetting where we were. I think we probably had the best revenue outcome, at least for those who have reported so far, in debt capital markets and some of that was because of leveraged finance, parts of that came back in for the third quarter.

If next year is characterised by better participation of sponsors into the investment banking fee wallet, then that ought to be helpful in terms of our year on year market share, which probably has declined this year. That would be our expectation. We are seeing growing shoots there. That's probably an overused term, but it does feel like the level of dialogue in terms of deal announcements, which you'll be able to see publicly, has picked up in areas that are probably more suited to us.

On BUK, the 15% increase in costs, part of that is a geography mix. We talked about our partner finance business, just the geography of moving that from our international bank to our UK bank. That's probably roughly half of that. Then there are ongoing things that we do as a restructuring matter, which are relatively small and we don't always call out. That's probably one thing that would be very difficult for you to have picked up in the third quarter, and that probably is why I think we were slightly higher than certain analysts out there. […]

Anna Cross, Deputy Group Finance Director

I'd also encourage you to think about the fact that we are incurring additional cost in response to COVID-19. They have built as the year has progressed, specifically around investing in our financial assistance teams to serve customers who may be incurring some financial distress. We're doing that pretty much in anticipation of customers rolling off payment holidays, and also potentially a peak in unemployment next year.

We've also seen higher technology cost to facilitate home working, and we've reprioritised some of our investment spend around resilience and initiative to enhance our digital capabilities, where we've seen quite a strong swing towards the utilisation of digital through COVID-19. You're going to see us continue to invest both in service levels and in our digital capability.

In response to that, we have driven some offsetting actions, specifically to ensure that any hiring that we've made within the retail network is concentrated on essential frontline and customer roles. […] In the current environment, we are seeing low levels of staff attrition across the entire network and that will impact our cost trajectory going forward.

I'd also highlight that pretty much 80% of our cost base is fixed, and discretionary costs that we have are largely focused on driving revenue. In the current environment, we've moved some of that spend towards refocusing our marketing and communication spend to make sure that our customers are adequately communicated to and supported. Whilst there are some costs that have gone down in BUK naturally, for example travel costs, they're not significant really in the extent of that cost base. Looking forward, you should expect us to keep focused on cost efficiency, but we will also continue to invest in the customer response to the COVID-19 situation we find ourselves in.

Tushar Morzaria, Group Finance Director

[…] We don't put anything below the line, if you like, in terms of ongoing restructuring activity, which does happen by the way. This is one of the philosophies Jes has brought to Barclays, which is businesses have to pay for everything, and putting stuff below the line on a perpetual basis is not how he wants to run it.

Some of our peers do call out things as below the line. I don't know the numbers in the same way you do, but probably a fairer comparison would be below the line and above the line costs to everything above the line trajectory which may be of some help to you.

Rohith Chandra-Rajan, Bank of America

I have two questions on income. Firstly, a clarification [on BUK]. I think you made a comment on Friday that the BUK balance sheet would be hard to grow. I just wanted to clarify that that was maybe in the context of growing NII? So you may well be able to grow the BUK balance sheet with consumer credit and consumer spending flat, but some growth in mortgages, but a mix effect in that is not enough to offset the NII process. Was that more a comment on the NII trajectory rather than the trajectory of the loan book in the UK?

Then secondly, CIB, you talked about some of the drivers earlier and you mentioned the allocation of more leveraged balance sheet you did a few years ago. You've been very careful to maintain the capital allocation, or control the capital allocation, to the CIB. Is that something that's up for review at some point? Is there any willingness to allocate more capital to the CIB to continue the growth of that business?

Tushar Morzaria, Group Finance Director

On the BUK side, I think the short answer is yes. In the sense that, we would expect parts of our balance sheet to grow - the mortgage book being the obvious one. I don't expect a whole load of growth in credit cards or indeed business banking, obviously the Bounce Back Loan Scheme and CBILS have grown quite substantially. I'll be surprised if we see a significant increase in business banking just after all of that. You're right in the sense that growth in those parts of the balance sheet [is tricky]. You've got the grinding down effect of the structural hedges of the net interest income headwind. It would be hard to offset that. Obviously a big pull on the rating environment as to whether structural hedges get refinanced as fixed receipts, so that's that.

On CIB and capital allocation, it's something we always keep under review for all of our business. I don't think we've got any near-term plans to make any substantial swings in capital. We are who we are and we have a degree of diversification. We are conscious that, whenever we make changes in capital allocations, that we don't overconcentrate the cycles where you would prefer not to be.

Having said that, the good thing about the CIB is you can be very, very nimble in terms of short-term capital allocations or indeed reductions [due to] the very nature of that business. […] For example in Q1, we typically try to put capital to work there, so that then tends to flow back out over the rest of the year. So we might see a bit more of that in terms of the ability to swing capital in the short-term, but secular allocations, no plans to make any big changes at the moment.

Anna Cross, Deputy Group Finance Diretor

I'd just draw out also perhaps another headwind, if you like, to asset growth is the extent to which we've grown deposit balances. We've seen both our personal customers and our business banking customers continue to build deposits. [This] is great from a franchise perspective, but does probably indicate that they are deleveraging or at least being cautious in advance of the significant uncertainty out there. I'd expect that to provide a bit of a headwind to asset growth. Clearly we're seeing some benefit in mortgages at the moment, but the extent to which that continues beyond the stamp duty concessions that we've got out there at the moment remains to be seen.

Jason Napier, UBS

The first one on the issue of mortgage rates […]. We can all see that they are wider than they have been. Weekend coverage suggested in the media that part of this was down to an inability to deal with the volumes, people working from home and so on. I wonder if you could give us any statistics on gross volumes […] and whether there is a meaningful, potentially transient issue? […] I wonder if operationally there is a meaningful factor?

Then secondly, as you showed on Friday, the early stage default data in cards, and we can see it in securitisation reports as well, remains staggeringly good considering the environment. Presumably in the process of taking yet more payment holidays and so on, you had a huge demand on cards and your customers are on things like furlough schemes and so on. Can you give us any data on how important that support is amongst the client space? The furlough schemes have been extended in staggeringly complex ways. I was just wondering whether you can give us a sense of how important that is amongst your customers in keeping defaults low at present?

Tushar Morzaria, Group Finance Director

For mortgage pricing and your question around operational volumes and pricing as a consequence of that as much as anything else, I would say for us application levels were extremely elevated. We were able to cope with the flow that we were receiving, but when flows climb up so quickly, there is a supply/demand dynamic that probably [puts] the bank in a slightly better pricing situation.

On the early stage default data and how helpful government schemes are, one thing [that] is very unusual about this cycle that we've never really experienced in the past is that, because of the government support schemes, particularly in the UK, consumers and indeed companies were given advanced notice of very difficult times to come. Whereas typically, you realise a recession when you're in it, rather than knowing that you're likely to go into a recession at some point in the future.

That has allowed some very rational behaviour from consumers and competency in how much liquidity is being built-up - deposit balances, spend reductions, and various things like that. […] You would have thought there would be higher delinquencies and more difficulty in credit than perhaps we've experienced, part of it I think is just the "advanced notice" that folks have had to get ready for what could be more of a difficult time as you go through the expiry of the support schemes.

Anna Cross, Deputy Group Finance Director

We have seen mortgage volumes grow significantly across the industry, and I would also highlight the difference within that total level. I think re-mortgage volumes have remained relatively stable. Actually, what we've seen is house purchase volumes increase. Clearly, re-mortgages by their very nature are easier and faster to process, not just for us but across the industry.

From our perspective, we built operational capacity through the quarter, and particularly from September. That was designed to cope with that additional volume. We're typically running, or certainly we've built-up operational capacity, to take around 900 applications a day, which is certainly a historical high. When we look at what happened to our volumes in particular, we saw them increase broadly in line with the market, but then we've recently re-entered the 85% base and that does contribute to some quite strong demand.

Having said that, we are managing the volumes that we are getting. The teams are monitoring that, as you might imagine, on a more than daily basis. We'll continue to manage not only the processing capacity, but also the pricing in order to keep that in line.

In terms of cards, I would really stress what Tushar pointed out, which was this effect of customers almost having advance notice. What we find is that, across nearly all of our macroeconomic variables, but particularly unemployment, it's not just the absolute level of unemployment that matters in impairment. It's actually the rate of change that matters. The more time customers have to manage their own situation and perhaps build a bit of savings behind them, the less impact it has on them.

Typically, that period of time where they've received additional support, but have also been in quite a unique situation where their payment opportunities have probably been significantly constrained - we've never seen a stress like this where customers have quite frankly had less to spend their money on. We've seen some quite interesting and different customer behaviour. I think that's definitely contributing to the comparatively low levels of delinquency we're seeing across all of our assets, but particularly in unsecured in the UK and indeed in the US.

Tushar Morzaria, Group Finance Director

[It's] hard to draw a parallel from the US to the UK. Our delinquency has declined in US cards, which is probably contrary to conventional expectations, given the level of unemployment. As Anna pointed out, the very rapid declines in unemployment every time it gets reported have quite a powerful effect for us in a situation where consumers are very deleveraged and got the chance to "get their house in order," so it has been remarkably benign.

Guy Stebbings, Exane BNP Paribas

Firstly, can I just ask on distributions? I appreciate you don't want to say too much before we get to full-year results, and we need to hear from the regulator, but I am keen to hear what you'll be weighing up if you are given the green light. I guess it would seem a reasonable assumption that you'll be sat there with quite a strong capital position at the end of the year, both in absolute terms and versus buffers. Your earnings this year would've been better than many given the strong Markets performance. […] On that basis, you could conceivably distribute quite a lot.

[However,] you could argue that the level of conviction you have on the outlook is just as important. It feels like the extent of inflation, the extent of impairments that we'll see over the cycle, we're still very much in wait-and-see mode for the time being. If that's the case, will that temper distributions quite markedly, even if you do have a very, very strong capital position at the end of the year? Is that a fair way to think about it in the rounds?

Secondly on RWAs, I just wanted to check if you're able to give any guidance on the new PRA mortgage consultation, CP14/20? […] From the disclosure we have, [it looks like] it shouldn't be too impactful for Barclays, but if you're able to give any colour, that would be helpful.

Tushar Morzaria, Group Finance Director

I won't speculate too much on distributions, as you pointed out. The kinds of things we would weigh-up, you have listed them out really. Our starting point in capital, that feels pretty good at the moment, certainly on an absolute and relative basis to buffers.

I think the level of profitability for this year will also be something that you would expect the Board to look at. It's probably a higher bar to be paying distributions out of equity than it is out of statutory profit. With that in mind, we talked about the scope for restructuring charges, and one thing I'd just again remind people of is that, when we're ready, we will take those actions. It's not necessarily all going to happen in one particular quarter and these decisions may be on a rolling basis. Depending on what that means for the fourth quarter and beyond, it's something we would have to factor in, so weighing up profitability, weighing up absolute capital levels.

On conviction on the future, again, we'll probably be making these decisions realistically, depending on what the PRA framework is of course. I don't want to pre-empt anything that their framework would or wouldn't allow, but we'll probably be making these decisions a little bit into the next year. Hopefully that would give us a better sense of the forecast around how the pandemic may evolve over the course of 2021.

I'd come back to the things that have been important for us this year, [including] remaining profitable, and we've done that in each quarter. Hopefully we'll be able to do that again in the fourth quarter. We try and look at that through a statutory lens when we look at distribution, so that will come into the mix in terms of any decisions around charges and what have you.

[…] I'm not sure I can say much more than that unfortunately, but those are some of the things we would put into consideration. I do want to say, I don't want to pre-empt anything that the PRA may or may not do. First and foremost, we'd have to have a good sense from them as to how they're thinking about this before we can overlay our own views on top of that.

In terms of the mortgage spread and mortgage floors, […] I don't think that will have much of an impact. We tend to have a slightly higher mortgage risk-weighted asset density than some of our peers. The days past due changes that will come through [at] the back end of next year will increase them as well, so I don't think the mortgage floors will have any significant [effect on] us.

Chris Cant, Autonomous

I just wanted to come back on this CIB cost: income ratio. […] I'm struggling a little bit to understand how you expect this to flex. If income levels do normalise somewhat in the CIB next year, given that you have a high fixed cost component [and] that you have reduced costs this year - costs for the nine months down 2% on income up 24% - should we just expect costs to basically flatline? Because there doesn't appear to have been that much of a variable comp response in response to the top line this year?

To your point, the variable comp pool for Barclays is smaller than for peers anyway, because of the European rules. So if income levels do normalise, fee pools normalise and you maintain your market share next year, should we just expect that cost: income ratio to go up in proportion, because the cost space isn't actually going to flex that much?

Tushar Morzaria, Group Finance Director

I think you're right directionally. If you put whatever number you'll have views on in terms of income declines, I think we'll be able to flow through the cost reductions of adding the CIB and vary the bonus pool accordingly [around localised levels].

We would like to think that we would be able to continue to improve the CIB cost base. I think it's one of those businesses where in all forms of banking these days you're never done with more mature businesses. You start the year thinking how can you do everything you did last year with spending less money, so there'll be a little bit of efficiencies that continue to flow through. But you're right, if it's a very significant normalisation, then there's only so much flex the bonus pool has. I think around local levels, we should be able to keep the cost: income ratio as competitive as it has been.

Chris Cant, Autonomous

In terms of the Group cost: income target then, the less than 60%, given that the UK business is considerably north of that at the moment and it doesn't sound from your comment that you're expecting a marked reduction in costs there, and indeed you don't seem to expect much of an improvement in income given the margin pressures, is the 60% cost: income ratio target then predicated on fee pools remaining at or around current levels? It's just not going to be attainable if we do see a normalisation of the income pool for CIB businesses?

Tushar Morzaria, Group Finance Director

When we struck those targets, obviously the world was in quite a different place. I think we'll come back at the right time once we've got a bit more visibility of what "the new norm" is really in terms of top line potential. We've obviously seen decent improvements in CIB headwinds and in the consumer businesses. We'll have to have a better conviction as to what that may look like into next year.

Some of that will be driven by where the pandemic goes, the way yield curve goes, and where economic activity goes. I just think we're probably too in the middle of it all to have any high conviction as to how this may settle down. When we have that, we'll have to look again if below 60% is the right thing for us or if the mix needs to change. At the moment, it's the only guidance we've got out there and we have continued to state it.

While we're waiting for all of that to settle down and take an assessment as to whether that's still the right target for us - which we'd like to think it is, I don't think it's something you'd expect us to give up on - we may have to approach it through a different way of driving our costs accordingly, depending on what our view on the income environment is.

I'd say more to come on that. You're correctly pointing out that consumer income has headwinds. We like to think that's offset by CIB benefits. We'd have to look at the cost mix as a consequence of that top line to see if we can still keep it below 60% and keep our target objective to be below 60%. We'll come back to you in the fullness of time once we've got better clarity on all of that.

Gary Greenwood, Shore Capital

I'm still a bit confused on this cost: income ratio guidance for the CIB as well. I think last year your cost: income ratio was about 69% for that division. In the first nine months of last year, it was 66%. Obviously, it has dropped down to somewhere around the low 50% so far this year.

In terms of stability in the cost: income ratio, are you talking about stability relative to the first nine months of this year? Or stability relative to the performance last year? Are we going to see a big step-up in the final quarter?

Then just in terms of capital and impairment, it feels like you've benefited quite a bit from the benign arrears situation at the moment. I was actually a little bit surprised when you said you thought Q4 impairments could be similar to Q3, with a few caveats around economic assumptions. I would've thought we'd start to see a pick-up in delinquencies in Q4. I recall you mentioning the cures would take longer to come through than the delinquencies, so you'd have a timing impact there.

Then that links into the question on capital, should we think of the CET1 ratio that you've recorded at the end of the nine-month period as a high watermark? Because it's really benefitting from the transitional relief and also the fact that we haven't seen a procyclicality on risk weighted assets as yet?

Tushar Morzaria, Group Finance Director

The cost: income ratio for the CIB, […] I think for localised income environment, if that were the case in 2021 then we should be able to hold it at roughly similar levels. If there is a significant change in income year on year, then the fixed cost component will likely come more into play.

In terms of your point on impairment and capital, […] if our models are correct and the book-up that we've taken will flow through into delinquencies and cures, [those will just even themselves out] over a three or four-quarter type [trajectory] or maybe even a longer. The book-up, if our models are correct and the economy behaves as we've forecasted, should be digested over that period and there should be no net further impairment build. But you may get the timing effect in the sense that defaults tend to happen quicker than cures.

[Based on the] delinquency levels we're seeing in September into October, for that to really have a dramatic effect in Q4 seems unlikely. Things can still change. You could get a massive wave of delinquencies in the last eight weeks or ten weeks of the year. It feels unlikely, but it's possible. It's possibly more of a risk going into next year, as the full effect of the support schemes go away, and you get a better sense of those people that can't cope and how quickly they go to default versus how quickly those that do cope we cure. The other thing I'd put in there, the government schemes themselves are moving targets. The Chancellor has refined updates over the summer and autumn, and it wouldn't surprise us if that continues as well.

In terms of capital, I won't give you a direct response, whether it's the high point or not. We're generally a capital accretive bank. We've been accreting capital consistently over a number of years now for one reason or another. Certainly in the near-term, we're very comfortable for capital to go backwards for some of the features that we've put out there, or indeed distributions if that's an option available to us. By and large, I still think we would be a bank that continues to generate excess capital, [which] will allow us to distribute that to shareholders over time.

Corinne Cunningham, Autonomous

Following on from the recent EBA paper on grandfathering, just wondering if you've had time to have any early thoughts about the implications of that? Whether there is a likely read across to the UK, and whether you might use the current CET1 cushion to maybe speed up and address some of these legacy bonds?

Tushar Morzaria, Group Finance Director

I haven't had a full chance to review it. In the spirit of your question though, I obviously won't give you security by security, but we've done liability management type exercises and [redeemed] legacy instruments where we find it appropriate […]. It's something we absolutely will continue to look at, and I think we even had a question on the equity call on Friday about some expensive legacy debt that's still out there - what are the plans around them? Again, we won't answer that directly, but it's always something that we keep under review, and we'll try to make the most economically rational decision with all things considered. A slightly woolly answer, but hopefully it should give you a sense that it is something we're focused on, and we'll certainly be looking to make the right economical decisions.

[…] Thank you all very much. We appreciate your time and questions for us. Stay well and hopefully we'll get a chance to speak to you all over the coming weeks. With that, I'll close the call.

Important Notice

The terms Barclays or Group refer to Barclays PLC together with its subsidiaries. The information, statements and opinions contained in this presentation do not constitute a public offer under any applicable legislation, an offer to sell or solicitation of any offer to buy any securities or financial instruments, or any advice or recommendation with respect to such securities or other financial instruments. Information relating to:

- regulatory capital, leverage, liquidity and resolution is based on Barclays' interpretation of applicable rules and regulations as currently in force and implemented in the UK, including, but not limited to, CRD IV (as amended by CRD V applicable as at the reporting date) and CRR (as amended by CRR II applicable as at the reporting date) texts and any applicable delegated acts, implementing acts or technical standards. All such regulatory requirements are subject to change;
- MREL is based on Barclays' understanding of the Bank of England's policy statement on "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)" published in June 2018, updating the Bank of England's November 2016 policy statement, the HM Treasury response to the consultation on the transposition of BRRD II published on 15 October 2020 and the non-binding indicative MREL requirements communicated to Barclays by the Bank of England. Binding future MREL requirements remain subject to change including at the conclusion of the transitional period, as determined by the Bank of England, taking into account a number of factors as described in the policy statement and as a result of the finalisation of international and European MREL/TLAC requirements as these are implemented in the UK;
- future regulatory capital, liquidity, funding and/or MREL, including forward-looking illustrations, are provided for illustrative purposes only and are not forecasts of Barclays' results of operations or capital position or otherwise. Illustrations regarding the capital flight path, end-state capital evolution and expectations and MREL build are based on certain assumptions applicable at the date of publication only which cannot be assured and are subject to change. The Bank of England will review the MREL calibration by the end of 2020, including setting Pillar 2A capital requirements, which may drive a different 1 January 2022 MREL requirement than currently proposed. The Pillar 2A requirement is subject to at least annual review.

Forward-looking statements

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and Section 27A of the US Securities Act of 1933, as amended, with respect to the Group. Barclays cautions readers that no forward-looking statement is a guarantee of future performance and that actual results or other financial condition or performance measures could differ materially from those contained in the forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'may', 'will', 'seek', 'continue', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'achieve' or other words of similar meaning. Forward-looking statements can be made in writing but also may be made verbally by members of the management of the Group (including, without limitation, during management presentations to financial analysts) in connection with this document. Examples of forward-looking statements include, among others, statements or guidance regarding or relating to the Group's future financial position, income growth, assets, impairment charges, provisions, business strategy, capital, leverage and other regulatory ratios, payment of dividends (including dividend payout ratios and expected payment strategies), projected levels of growth in the banking and financial markets, projected costs or savings, any commitments and targets, estimates of capital expenditures, plans and objectives for future operations, projected employee numbers, IFRS impacts and other statements that are not historical fact. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. The forward-looking statements speak only as at the date on which they are made and such statements may be affected by changes in legislation, the development of standards and interpretations under IFRS, including evolving practices with regard to the interpretation and application of accounting and regulatory standards, the outcome of current and future legal proceedings and regulatory investigations, future levels of conduct provisions, the policies and actions of governmental and regulatory authorities, geopolitical risks and the impact of competition. In addition, factors including (but not limited to) the following may have an effect: capital, leverage and other regulatory rules applicable to past, current and future periods; UK, US, Eurozone and global macroeconomic and business conditions; the effects of any volatility in credit markets; market related risks such as changes in interest rates and foreign exchange rates; effects of changes in valuation of credit market exposures; changes in valuation of issued securities; volatility in capital markets; changes in credit ratings of any entity within the Group or any securities issued by such entities; direct and indirect impacts of the coronavirus (COVID-19) pandemic; instability as a result of the exit by the UK from the European Union (EU) (including the outcome of negotiations concerning the UK's future trading and security relationship with the EU) and the disruption that may subsequently result in the UK and globally; and the success of future acquisitions, disposals and other strategic transactions. A number of these influences and factors are beyond the Group's control. As a result, the Group's actual financial position, future results, dividend payments, capital, leverage or other regulatory ratios or other financial and non-financial metrics or performance measures may differ materially from the statements or guidance set forth in the Group's forward-looking statements. Additional risks and factors which may impact the Group's future financial condition and performance are identified in our filings with the SEC (including, without limitation, our Annual Report on Form 20-F for the fiscal year ended 31 December 2019 and our 2020 Interim Results Announcement for the six months ended 30 June 2020 filed on Form 6-K), which are available on the SEC's website at www.sec.gov.

Subject to our obligations under the applicable laws and regulations of any relevant jurisdiction, (including, without limitation, the UK and the US), in relation to disclosure and ongoing information, we undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Non-IFRS performance measures

Barclays management believes that the non-IFRS performance measures included in this document provide valuable information to the readers of the financial statements as they enable the reader to identify a more consistent basis for comparing the businesses' performance between financial periods and provide more detail concerning the elements of performance which the managers of these businesses are most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by Barclays management. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well.