

Barclays PLC Q3 2023 Results**24 October 2023****Results call Q&A transcript (amended in places to improve accuracy and readability)****Alvaro Serrano, Morgan Stanley**

A couple of questions please, the first one on BUK NIM. Your [FY23] guidance, I think I understood the top end of the guidance, the 310bps, assumes a similar sort of deposit trend as in Q3, i.e. I guess your guidance says that things could get worse in Q4 in terms of mix and volumes. Can you maybe sort of explain what happened during Q3 and why have you given yourself some room for deteriorating trends? I think most of the guidance from your peers and maybe even yourselves was that once the rate sort of hikes were over, you would see much more stable deposits. So, interested to see why you've left yourself some room for deterioration.

And the second question is on the restructuring charge in Q4. Obviously, your 10% RoTE guidance is now ex this restructuring charge. The question is, how much is that going to interfere with the payout and with buybacks that you may announce at the end of the year? Because I would have thought, given the provisions are going much better than expected, you would have had plenty of room to cover potential restructuring without going into your RoTE guidance, but that doesn't seem to be the case. So maybe how should we think about year-end distribution? Obviously, [inaudible] doing better, but more restructuring costs, maybe sizing that restructuring cost would be helpful.

Anna Cross, Group Finance Director

Thank you, Alvaro. Good morning, and thanks for starting off the questioning. I'll take the first one, and then I'll pass to Venkat for the second half of that.

So let me just talk through UK NIM in the third quarter, and just to level set and reiterate what I said on the call, a basis point of NIM is £20 million annualised, less than 0.1% of group income. What we said at Q2 was that we expected NIM to step down in the third quarter, and somewhat stabilise into the fourth. There were a few moving parts within that, and much of it has played out as we expected. So, we've seen a lessening of the impact of mortgage churn. We've seen a continued tailwind from the structural hedges. Actually, deposit pricing played out roughly as we expected, and you can see that that's negative in the quarter for the first time, as we indicated it might be.

What's really different is the movement in deposits, and what I said on the call earlier was that actually the movement in average deposits is a bit more significant than the quarter end might indicate. And whilst we saw very similar trends to the overall Bank of England movement in current accounts through the quarter, we captured less of that into fixed-term deposits than we might have expected to, and that relates purely to the intensity of competition that we saw during the quarter and very intense at particular points.

And it's really that that's made the difference. So I would say it's depositor behaviour that has somewhat intensified in response to pricing. So previously we said that we expected that to be more stable in Q4,

and that's simply because in Q4 you typically see a deposit stabilisation pre-Christmas. We now no longer anticipate that just because of these competitive dynamics, and that's really what's causing us to change that outlook.

We're not saying that it will be better or worse in the fourth quarter. I think what we are saying is that this customer deposit behaviour has been relatively difficult to predict, and that's why we're giving you a range indicating to you that if we saw something similar, that would be towards the top of that range. So that's the reason for the change in guidance. Venkat?

C.S. Venkatakrisnan, Group Chief Executive

Thanks, Anna. And Alvaro, I'm sure you sort of caught this through the presentation, but just to add on the NIM point for one minute, overall group deposits, as Anna said, BUK NIM is part of our overall NIM. Our overall deposits grew about £7 billion quarter-on-quarter, and our NII is up about 6% year-on-year at £3.2 billion, and NIM itself is 3.98% at the Group level, again, 13 bps higher. So, think about it in the larger context.

And also, coming back to the restructuring charge, two things I would say. One is you should think of this structural cost action as in part of the Investor Update which we will provide in February. So, what this is, is we have to announce it now because, as we work through it, we will likely take a charge in Q4, that's why we announce it now. But you should think of it as not something related to a quarter or the last two quarters but part of the larger, structural improvement of efficiency and productivity for the bank.

As for your specific question, what I would say is a few things. Number one is that we very deliberately start this quarter at a strong capital position of 14% and we've got a capital generation of about 130 basis points of CET1 ratio year-to-date. This underpins our ability to return capital to shareholders. As far as our desire, we completed a £750 million buyback in the first half and so total distributions so far this year are £1.2 billion, which is about 30% higher versus the first half of last year. And this really reflects our commitment to return capital to shareholders. We spoke about the efficiencies we're driving across the group. Equally, you should know that we are comfortable to operate in the full range of 13% to 14%. And we have been there in the past.

Obviously, any capital action ultimately is approved by the Board and approved by regulators. But from our point of view, and we'll come back to the details in February, from our point of view, good initial starting position, good capital generation across the bank, understand the importance and the priority to our shareholders of returning capital, willingness to operate through the full range.

Jason Napier, UBS

Two for me. The first is coming back to the issue of the flagged restructuring charges. Venkat, as you mentioned capital really strong, in fact the Q3 beat alone is £1 billion relative to consensus. And so I guess anything that you could say to provide a rough sense of how much you're looking at spending here, I appreciate this is not the venue at which you wanted to give it but today conversations with investors are that there seem to be risks on the payout front with no sense of how much cost savings we might be talking about or where in the group you might be looking to be more efficient, clearly we think it's the right thing to be doing, but the £1 billion beat on CET1 is 7% of annual group costs. You could do a lot with that. So, anything you can do to be helpful on what the payback would be for the charges that are already in mind and which are triggering these provisions, that would be the first.

And then secondly, linked to that, at your conference in New York last well, in September last month, the month before, you said you were happy with the mix of business for the group. And so I wonder whether you'd give us a sense as to when you talk about updating investors on capital allocation priorities,

whether you're really just talking about, what grows faster in future or whether we should have in mind a sense that the present mix of capital allocation is up for debate. Thank you.

C.S. Venkatakrishnan

Yeah. Good questions, Jason. Thank you. Let me begin on both of them and then I'll let Anna add on any details.

So on the capital versus the spending, look, this is not the right place to be giving it. I think, as I said in the answer to the previous question from Alvaro, we start at a good point on capital. We've been accretive on capital and view the spending and the restructuring in the larger term context. I'll let Anna add to that in a minute.

And on the second thing, what I would say is, I mean, I view the Investor Update in a simple way. It's obviously complex to analyse and execute, but I view the question in a simple way. It is, what do you think is the target return that this bank can generate for its shareholders? So what's the RoTE ambition? How is it comprised at the Group level and in the individual businesses? How much can it improve in the individual businesses and therefore what is it that you wish to fund in that improvement?

I also said in New York it's very, very clear that the market values different businesses differently. Right? And we obviously have to take that into account in the way in which we think about our capital allocation.

And so, you sort of put it all together and you get the picture of where we think we want to go, but obviously more details on that later. And then, ultimately, once you do that, then to be targeted about saying what of that growth and return you wish to - you target returning to investors, because I do absolutely take the point that we don't - we announce the buybacks on a half yearly basis and we should, we don't have a target out there for that, and that would be something that I think our investors would find desirable. Anna?

Anna Cross

Thanks, Venkat. Jason, we're still going through the process of evaluating those actions, as we said, so we haven't come to a finalised list yet. We have called them material. Let me help you a little. You'll note that from our [Results Announcement], we have called out the year-to-date restructuring charge is around £120 million, so we've shown that to you and told you that it's largely in the UK. In any typical year, we run at between £200 or £300 million, so by calling this out, we're indicating to you that it will be higher than that, but I can't comment on specific levels, simply because we haven't finished the work, but as Venkat said, as we take those decisions, we're extremely focused on future returns and we understand and are committed to shareholder returns, so that's very much in our mind.

The other point is around the strength of the capital position, we've been operating with good cost and capital discipline all year. That's clearly the foundation of where we step out from in February, and we'll tell you more then.

Rohith Chandra-Rajan, Bank of America

Hi, good morning. Thank you very much. I just wanted to, sorry, come back on the BUK NIM and really the trends that you were seeing on deposits through the third quarter and then what you're seeing so far in October. So, Anna, you mentioned that the averaging effect was actually worse than the end point position, suggesting that actually things got better in September, perhaps. So, I was wondering if that's continued in October. So, it's really how we should think about sort of the trajectory of those deposit flows through the quarter and then into Q4.

And then just to clarify that when you say if current trends, if Q3 trends continue, then they expect to be at the top of the guided range, is that essentially taking the margin bridge on Slide 15 and excluding the 5 basis points impacts from pricing? Is that how to think about that? Thank you.

Anna Cross

Thanks, Rohit. Why don't I take those? So, what we really mean by the averaging point is that the outflows were probably a bit more evenly spread through the quarter than they were in the second quarter where, we saw somewhat of an increase in intensity towards the second half and I don't think it was lessened in September at all, there were certainly quite a few headline rates out there that were extremely, extremely competitive. In terms of October, I'd just call out the fact that we haven't yet seen the first month's end. So, we're still midway through the first month, there's nothing in what we can see so far that's really, that's sort of beyond our expectations or out with our own forecasts.

That's all I can really say at this point in time, but I would just sort of highlight that what we're seeing is the impact of the pricing. In terms of the sort of range of guidance, I mean, what we're really saying rather than any particular point on the bridge is that, depending on where those deposit flows go, you could end up with a very different exit rate. So that's what we're really calling out to you. And clearly, if we saw trends similar to what we saw, i.e. the deposit trends continue, similar to what we saw in Q3, we would be towards the top end of that range and that would give you a particular jumping off point for 2024.

And what I would highlight though is that the structural hedge continues to protect the NIM overall. And what you have seen over the last quarter is that we've been able to lock in another large chunk, both of 2023 income, but another £300 million to £400 million of 2024 and 2025 income, just because of the way that hedge is rolling month-on-month.

Rohith Chandra-Rajan

Yeah. That's very helpful. Thank you. Just a quick follow-up if I could then. So given that you talked about the hedge into the coming years and you were expecting this deposit stabilisation in Q4, do you have a view going into next year in terms of deposit trajectory given what you're seeing in terms of competition in the market?

Anna Cross

What this year has taught us is that customer deposit behaviour is quite difficult to call, so what I'm not going to do is give you a 2024 NIM outlook. What I can tell you is that there are three factors that we're looking at. One is positive, one is neutral and one is more negative. So the positive impact is clearly the impact of the structural hedge and remember that two-thirds of that goes into BUK.

The more neutral impact is that we do expect and we are seeing that the impact quarter-on-quarter of mortgage churn are starting to dissipate, we've called that out for some time.

What is more difficult to call is the impact of this ongoing deposit behaviour, both the reduction in deposits because customers are using them in order to manage the broader economic environment, but also them seeking higher rates. Difficult to call out when that would stabilise Rohith, but all I can say is that there are other factors in the mix, most importantly the structural hedge.

Chris Cant, Autonomous

Good morning, thanks for taking my questions. Two please, one on NIM and one on RoTE. So, I appreciate everything you've said about the difficulty in predicting depositor behaviour and the fact that BUK NIM is not the be-all end-all for your group revenue dynamic.

But obviously we've had some pretty dramatic shifts in NIM guidance over a few quarters and there's a huge range of possible Q4 exit levels implied by the range you're now giving us. So, a very simple question to help us get our own views on what might happen. What's the average cost of your deposit balances in the UK third quarter and what proportion?

And then on RoTE, in terms of the risk to the 10% RoTE target inclusive of restructuring charges, if I just kind of run the numbers [on your disclosed average tangible equity for the year to date and where you come out for Q4, it gets] to say a 9% RoTE including restructuring charges, that would imply a negative bottom line number for the fourth quarter, you've obviously delivered a pretty strong RoTE year-to-date. The fact that you're flagging potentially not being able to hit greater than 10% RoTE inclusive of restructuring charges implies the fourth quarter could be a net loss. Is that the right way for us to be thinking about this? And within that, when you're flagging the £120 million of restructuring charges year-to-date, is it the case that when we get to the fourth quarter, the catch up to the normal £200 million to £300 million is going to be excluded from your RoTE calculation as well? How are you thinking about that? Is future £300 million in the RoTE calculation and then the exceptional charge on top of that excluded or is the whole amount potentially going to be excluded when you calculate your RoTE end of the year to assess delivery on that target? Thank you.

Anna Cross

Okay. Thank you very much, Chris. Why don't I take those two and I'm sure Venkat will add it if he wants to.

So, you're right, there has been some considerable movement on the BUK NIM, particularly over the last quarter. As I said, clearly that's driven by customer deposit behaviour. I would highlight for you that as we look at BUK NIM, we are actually looking at quite a narrow measure. So, in comparison to our peers, remember, they would be including all of the corporate income and asset base within there.

And so, really, you should be looking, as you make comparisons to the rest of BUK, you should be looking across both BUK and the corporate NIM position. And we don't disclose the average rate paid on our deposits, although what we have given you this time to be more helpful is a split of our deposit balances and indeed how that has trended over time and it's showing very clearly that movement into term as you would expect and as many have commented from Bank of England data.

On your second question, so to be clear what we are not doing is giving any kind of PBT forecast for the fourth quarter here as it wouldn't be appropriate for us to do so not least, we haven't concluded our assessment of the structural actions that we may take. Merely what we're calling out is a few things. Firstly, we're clearly going into the fourth quarter with good RoTE momentum, we've delivered 12.5% year-to-date, somewhat ahead of consensus. However, the fourth quarter does have some seasonal impacts in it, so typically, we see lower CIB income, typically, we see higher impairment in US cards in particular, simply because of the seasonality in spending. We also see impacts from the bank levy and we've just given you an indication that we see a continuation of deposit trends in the UK. So, not saying anything more than that, in that typically you expect RoTE to be lower in the fourth quarter than in the preceding three, and to the extent that we take decisions in that fourth quarter, that may impact the RoTE.

Now, as we do so, we are very focused on future returns for the business, so our overall objective here is to improve the returns of the business through time. Clearly, efficiency and effectiveness is a key part of that, so we're just calling out our intention to continue that cost focus for the business.

C.S. Venkatakrishnan

Yes, and I cannot emphasise that last point that Anna made enough, which is that think about this in terms of the Investor Update in February and the longer-term plan for productivity and efficiency in this bank.

Chris Cant

If I could just follow up on the RoTE point first, please, I mean, the year-to-date you've done £4.4 billion of profit, your average tangible is probably going to be something like £47 billion for the year, so you're pretty much all the way there to delivering a 10% RoTE on the nine months to date, but to get to a point where you're flagging to us that you might not do greater than 10% for the full year would seem, I mean, I think unless I'm missing something there, the maths implies potentially very, very material for Q4 restructuring charges, but am I missing something there?

I mean, it does seem, in the context of a debate where I had some investors asking whether you might be announcing a surprise, this is obviously kind of top of mind for your investor base, how are you going to be balancing these things. Are we looking at, potentially greater than a bit of restructuring or cost-to-achieve or whatever we're going to be titling it in the fourth quarter? I mean, that's [...] the maths, even except for the point when it's about seasonality and balance, etc.

Anna Cross

So, Chris, I understand the maths of what you're putting in front of me. I'm going to say the same thing, that we have not yet concluded on those plans. To the extent that we do, we will update the market further at full-year, both in terms around the costs, but also the ongoing impact that we would expect them to have.

Just as investors do, distributions are top of our mind too, as Venkat pointed out. So, as we take these decisions, we will be extremely mindful. And as you said previously, we go into the fourth quarter very deliberately at the top end of our capital range.

Chris Cant

And on the deposit cost point, if I could just push on that as well, please. If I frame it slightly differently, how do you expect investors to be able to take a view on what might happen with the BUK NIM, unless we're armed with basic information about what you're currently paying on deposits relative to the types of offers that are out there in the market. You'll flag competitive offers as a key driver for the fact that you're re-guiding NIM lower and seeing deposit attrition, but we don't know how much better those rates are relative to what you're currently paying or have been paying earlier in the year. It's very difficult for us to take a view on what's going to happen without that.

Anna Cross

So Chris, all I would say is that we price competitively, but not uncommercially.

If you look at our savings pricing, it's very, very clearly indicated both on our website and indeed in any branch. You will see that we are competitively positioned across our term deposits, across our ISAs, across our instant access, for example, Rainy Day Saver. So, we don't genuinely believe that there's something mispriced in our savings franchise. We're happy with it.

From quarter-to-quarter, you will see other competitors operating in a different way.

Guy Stebbings, Exane BNP Paribas

Hi. Good morning, everyone. A couple of questions on deposits, firstly, the UK and then outside the UK. So, first, I'm just trying to understand the comment that pricing played out as expected, are you talking for Barclays or for the industry? I would think about pricing and then movements and deposits for individual institutions is very much linked. Had you priced up more in line with some peers then the balance move wouldn't have been such a headwind. So, perhaps you could clarify that point. I'm just trying to think about in the context of how you might want to react more to protect balances in the future in a competitive marketplace.

And then outside the UK, the UK, clearly that was much stronger, could you just give a bit more colour around what you're seeing, what the strategy is there and are you having to pay up or is this very much profitable deposit growth that you're seeing outside the UK? Thank you.

Anna Cross

Okay. Thanks Guy. I'll take both of those.

So what I meant by the pricing was as we expected, clearly we knew at Q2 when we reported to you the price changes we were going to make and therefore that deposit bucket, the one that's called bank rate, is broadly as we expected it to be.

Now, what subsequently happened to both the level and mix of deposits is much more driven by the external competitive environment and that's what we are calling out. Very similarly to what I just said to Chris, we are happy with the overall level of our savings pricing. Our strategy is to encourage our customers to develop healthy savings habits. We are pricing to, and as far as possible, maintain our franchise rather than attract hot money and we will price competitively but not uncommercially. So, to the extent that we see competitive pricing going in that direction, then obviously, we would not follow it.

I think, the other thing, just to put in the mix, is everybody is looking at the impact of the UK NIM. Please do not discount the impact of impairment. So, all of this behaviour, this conservatism in behaviour, is also flowing through into the impairment line and the UK impairment has been lower than consensus for nine successive quarters. So, it's just worth bearing that in mind.

Second point, that you asked about, which is around the deposits elsewhere. I mean, in a high rate, persistently high inflationary environment, we would expect to see high-level deposits flow from retail customers towards corporate. That's exactly what we see, and given our franchise, that is what you're observing. So, UK corporate deposits are very stable. You see some migration, but very stable in totality, and what we've seen in the quarter is a continued inflow more from global corporates. That's particularly fairly long-tenure term funding, and competitively priced, but good for the deposit franchise overall. So, very much a continuation of what we called out actually in Q2 and indeed Q1.

C.S. Venkatakishnan

If I may just step in and emphasise the point Anna made about the link between deposits and impairment. I think it's, to me, it's one of the interesting things that we've seen, where we've seen people using their deposits to pay down debt, whether it's mortgages or other things.

One, it shows that they have the ability to do it. So obviously, it's helpful with impairments, but it also gives you an idea of the type of credit quality of customer we have, which I think is a good thing. So as Anna said, nine quarters of continuously of positive surprises, meaning lower impairments than consensus in the UK and people using deposits to pay down debt, it's all a good thing about credit quality.

Benjamin Toms, RBC

Good morning, both, and thank you for taking my questions. Firstly, it's around just some recent press speculation that you're looking to sell a stake in your UK merchant acquiring business. I know you won't want to comment on that directly, so perhaps the best way to phrase the question is to ask what you think is the best way of Barclays generating value out of its UK merchant acquiring business going forward.

And then secondly, I noticed your statement around the PRA rules being the most relevant to the expected impact under Basel 3.1. In that context, the regulator gave a Mansion House speech last week. Our interpretation of that speech is that we'll likely see a softening of the rules around Basel 3.1 when they're announced later this year and in May 2024. Would you agree with that assertion? Thank you.

C.S. Venkatakrisnan

Let me take both of them. First of all, in the UK, merchant acquiring business, I think, we are fortunate that we've got a business that has both issuances and acceptance. And it is very much a business which is targeted at corporates and SMEs. And what it does is that it adds another quiver to our arrow, a very positive quiver to our arrow, when we deal with them. We provide them transaction services, we provide them, obviously, with banking or in exchange services, and then payments for merchant acquiring. The business itself overall is very good. I think there's a broader strategic question for us, which other banks have faced, which is it's a very technology-driven business. How well do you -- what is your comparative advantage in this? Is there a comparative advantage in developing the technology or in implementing the technology of building machines which you put with clients, or is there a comparative advantage in helping service them as part of a larger set of banking services? That's the question we're looking at, and then I think the commercial arrangement will come out of the answer to that question. So, that's the way we are thinking about that business.

As far as Basel 3.1 goes, I'll say two things. I also read the Mansion House speech with interest. I think the UK rules are solidifying. They will probably on the market risk side resemble the US rules, and it is still too soon to say how much of an impact - what kind of changes going forward there are from what we've seen. So, I don't want to sort of comment one way or another, I mean the only thing I would say on this more broadly is I think at the end of the day, I know there's some commentary from the US banks that the impacts are greater on them. But these capital regimes, and we've been under the UK capital regime, of course, these capital regimes are very difficult to calculate apple for apple.

And so I think at the end of it, when you look at what the Fed has done and when you look at what the Bank of England has done, what you're probably going to have is roughly comparable capital regimes between the US and the UK, roughly comparable.

Anna Cross

So let me just round that off. I think, Ben, obviously we know these speeches are of interest, but we're awaiting the final rules both in the US and in the UK and elsewhere, and, of course, we don't yet know what the impact of any changes around pillar 2 might be. So, until we see it in print, still some uncertainty. So, we continue to guide to that 5% to 10% that we've given you before, erring towards probably the bottom end of that range. But thank you for the question. [...]

Jonathan Pierce, Numis

Two from me again, please. The first, I just wondered what was in the 7 basis points of a drag that's coming through in the UK NIM in the quarter. I think you described it in the email as product mix. But is it

just that or is there some treasury effect coming through there again, like we saw earlier in the year, and if so, how large?

The second question is to focus on one of the bright spots of today's numbers, the TNAV, a very powerful move in the third quarter and the cash flow hedge reserve seems to have unwound by about 20%, I think, in just three months. I don't want to pre-empt anything you're going to say for the year on new financial targets and the like, but are you completely comfortable that in the medium-term, including next year and 2025, that you can still do a greater than 10% RoTE target as it is today, all in, including any additional structural cost actions and make them through next year, against this quite powerful move up in the TNAV, because there's nothing to suggest the TNAV isn't going to keep moving up at pace from here. So those are the two questions, thanks.

Anna Cross

Okay, thanks Jonathan, I will take both of those. So in the seven basis points of other is product, it contains pretty much everything else that isn't to the left. There's nothing significant in there individually, there's a bit of cards, there's a bit of business banking as we see the government-backed lending being paid down, there's also a little bit on [Barclays Partner Finance]. You might recall that we said that we were pausing new business in that space whilst we re-platformed that business technology-wise, because that's unsecured, although it's small it can have an impact on NIMs, so nothing more than that, nothing specifically in Treasury to call out at all.

On TNAV, clearly that has moved significantly in the quarter. In part, that is actually a reversal of what you saw from the beginning of the year, so just to unpack this a little bit, clearly what drives TNAV over time is attributable profit and us driving good returns as we have done this quarter. So, that's 8 basis points. There was also 3 basis points that came from the fact that we'd conducted a large part of the share buyback by the end of the quarter, and this is obviously a per share measure. You're right to call out the cash flow hedge reserve, which was 10p in this single quarter, but if you look at the disclosures at the back of the results announcement, actually you can see that quarter-to-quarter, these reserve movements can be relatively material, and the third quarter just unwound the position from the beginning of the year, and what's actually going on here is that as rates fell back a little bit in the third quarter, the negative drag from that cash flow hedge reserve just lessened a little bit., but that was just unwinding.

You might recall in the second quarter there was a big move in the opposite direction that actually depressed TNAV. So, really, as we think going forward from here, we try and strip out that kind of quarter-to-quarter volatility. What we're really focused on is the accretion of profit and driving robust returns, and that's really what we'll come back to you on in February.

Adam Terelak, Mediobanca

I want to come back to deposits and competition for deposits again. Clearly, you've been surprised in the quarter by the level of competition out there, but the comments you're giving us back is very much that you're confident in your current pricing. I mean, what needs to change in terms of the level of competition out there for your view on that to change? If you look at your savings rates, they're clearly a step below your closest peers. And from what we can see in the data, then you're losing deposits that, whilst pricing up might be a threat to NIM, at least you're keeping deposits on the platform. So I just want to kind of understand your approach to competition, short term, but also medium term, if these very competitive rates continue to stay out there.

And second, you mentioned on the hedge, that the hedge comes down in relation to your hedgeable deposits. If I look at the disclosures you've given us today, then it looks like you're hedging much, much more of your savings products than your peers. So, I'd just like to get a bit more colour around how you

run that hedge versus your deposits, what your hedgeable deposits actually are, and how you see those developing over the next couple of quarters.

Anna Cross

Okay. Thanks Adam. Why don't I take those and I'm sure Venkat might add, particularly on pricing.

So, as I said on the previous answer, we are pretty comfortable with the way that we are placed on our pricing. Clearly there is a difference in competitive pricing across the industry between what I would describe as bigger banks and challenger banks. You might have a different need for liquidity, particularly over the next couple of years as TFSME runs off. And we are mindful of that, and we keep our savings pricing under review.

But as we are making savings decisions, we think about the franchise and we think about our liquidity and our balance sheet, those decisions will be different bank by bank and institution by institution. I wouldn't comment further than that.

In terms of the hedge, our hedge strategy has been very, very consistent over the last few years. So, what we do is we identify rate-sensitive balances, we exclude those from the hedge and then on top of that we maintain a buffer and we hedge the remaining balance.

We monitor that hedge on a monthly basis and what you can see year-to-date is that we have trimmed our corporate hedge thus far. We do that by making the decision to pause all or part of the role month by month and those are active decisions that we take. So, we've got ample opportunities to adjust that hedge as we see deposit' behaviour changing. As compared to our hedge strategy versus competitors, I wouldn't comment on it.

Adam Terelak

Just to follow-up then, does that imply you see rate insensitive balances within your savings accounts disclosure today?

Anna Cross

There are some balances within our deposits overall that are rate insensitive. Much of our current accounts would be rate insensitive simply because they relate to operational deposits. That will be true in BUK as it is in the corporate bank, as it is in the private bank, although you'd expect those constituents to behave differently. That is certainly true.

There is also some rate insensitivity in savings because customers, and indeed corporates, do use some of their savings balances as sort of rainy day funds, simplistically, and particularly in instant access accounts, we see customers turning over their savings within the period of about a year, for example. So, we have demonstrable evidence of that insensitivity, Adam.

Edward Firth, KBW

Can I just ask you, just trying to get the implications right for sort of '24 and '25 now, because if I look at the math correctly, and I suppose I'm just checking my maths here, it looks like you've got an exit margin of somewhere around 290 into next year. And I guess we would imagine that that's going to continue to deteriorate because a lot of these deposit trends are long-term trends. If you look back to the last time, interest rates were at 5%. The structure of a deposit franchise was completely different, and the margins were much smaller than you're getting today. If that is the case, that looks to me like, we're looking at maybe £500-600 million off consensus for next year just for net interest income, and yet

consensus is only looking at a 10% return on tangible even now. So, –I assume you want 10% to be some sort of a base and you wouldn't want to be delivering lower than that. Is it the cost? –Should we be looking at a cost program to offset that? Is that where the difference comes from? Or how else can we get ourselves back to 10%? Or should we be thinking that actually that is a risk now?

Anna Cross

So, I'm not going to comment on the exit rate from Q4. What we've done is we've given you 'a range, Ed, and we've told you what will happen if we see similar deposit trends.

Edward Firth

No. But I'm just checking my maths. That was all. I mean, if [FY23 BUK NIM is '3.10, that implies the Q4 exit rate is somewhere around 2.90]. That's great. Thanks.

Anna Cross

Yes. So, your maths is as I would expect, I'm sure, is very robust. And as we've said before, it may or may not deteriorate next year. I mean, we've got a real tailwind from the hedge. So, I'm going to go back to that.

Secondly, we've got this neutralisation of the mortgages month-to-month. And then you have ongoing deposit behaviour. So, you're right to say that we're in a different place to where we were, sort of, and we're going all the way back to 2006, 2007. I mean, I would remind you that at that point, the liquidity positions of the very large banks was very different.

So, all of the large banks were running loan to deposit ratios well in excess of 100%, 150%, 160%, 170% in some instances, and therefore those fixed term deposits were essentially being used in lieu of wholesale funding in large part. So, it's a different structure of market overall, so I'm not going to comment on where we end, but I would urge you to consider that.

In terms of the, so we then make the jump from BUK to group, so a percentage point or a bp of BUK [NIM] is £20 million, that is 0.1% of group income, so in all of these considerations we need to consider the rest of the group, so yes, BUK NIM is stepping back a bit, but we're also in a position where actually the market for Markets, and particularly Banking, is significantly depressed, so Banking is coming off a decade low. We've seen pretty low levels of unsecured lending in the UK, relatively muted demand for wholesale debt both in SMEs and in Corporate, and of course, if you look across into CC&P, the US cards business continues to grow, and the Private Bank continues to grow.

So, I think, so I take the math point on BUK, but it is a relatively small part of the Group. You're right to call out efficiency. We're very focused on that. We see that as a key part of driving our returns, and obviously we'll come back to you with the whole picture in February.

C.S. Venkatakishnan

Yeah, and I'll just add on the efficiency part of the structural cost actions. Think of it as a longer-term approach to increasing the growth of this bank. That's what the efficiency is about. It's not about 'making ledger work.

Edward Firth

Can I just come back on that? In terms of efficiency though, I mean, are we talking CIB efficiency? Because your retail bank is making over 20% return on equity. I mean, that feels like a really good number on most benchmarks. I don't know why you would want to take costs out of that particularly. Is it, so is it like head office and CIB or where would we be seeing that?

C.S. Venkatakrisnan

So, look, we'll give you the details later. I applaud you for recognizing the RoTE of our retail bank. It has not come up yet, but it is, you're absolutely right. It's doing 20% and it's doing well. But in every part of the bank, there are things which we can do better.

And so that's not to take away from the performance of the retail bank. Anna?

Anna Cross

I wouldn't add.

Joseph Dickerson, Jefferies

Hi. Thanks for taking my question. I guess a couple of things, just going back to this charge that you intend to take in Q4, could you just talk about what your hurdles are in terms of payback and timing, just to give us a sense of timeframe and payback?

And then secondly, on the CC&P margin, there was a 63 bps, on my numbers, 63 bps pickup quarter-on-quarter in the margin, which was significant. And I guess, how do you think about the trajectory of that, particularly given the growth in US receivables? And I presume that a fair amount of the growth in the US receivables is coming from the Gap, which is a higher-yielding book. So how do we think about the margin trajectory in CC&P?

Anna Cross

Okay. Thank you, Joe. I'll take those.

So, I'm not going to go into the Q4 charge in detail at this juncture. We're obviously still evaluating actions. You might expect that depending on what those charges relate to, the payback might be slightly different. So, you'd expect, for example, property to take longer to payback, whereas other actions that we might take would be faster.

But when we talk to you in February, Joe, we will outline what we've done and what we expect that payback to be. In terms of CC&P, you're correct. The net interest margin has stepped forward in the quarter. There are two real impacts in there, I first is growth in US receivables, so the growth in the cards business, as we said, balances are up 11% year-on-year and that clearly has a powerful effect.

At the same time, we see deposit migration in the Private Bank, which is no different to what we see in either Corporate or in BUK, so, that has an offsetting impact, although in the Private Bank what we see is a flow into invested assets, so we retain that income, it just goes on to a different line. There is a one-off in the third quarter' it's not huge, but I would strip that out ongoing, so that's why we are saying that we'd expect Q4 NIM to step back towards Q2 NIM. So, don't think of this step-up as permanent, I think there is momentum in the number, but this is somewhat exaggerated by that one-off.

Joseph Dickerson

Okay. And then, can I just be cheeky and ask one other question, just given -- because I think there's been some confusion on the call' It's a very small, it's kind of a yes or no question anyway, but just do you expect to deliver in line with your 10% or greater return in 2024?

Anna Cross

We will come back to you on 2024 guidance when we talk to you at the full year. As Venkat said, that's when we plan to update the market on our expectations for returns, capital allocation, costs, distributions, but you should read that we are very focused on returns ongoing Okay. Thank you. So, can we go to the final question, please?

Andrew Coombs, Citi

Two questions, one hopefully very short.

The first question, you're encouraging us to look at the group NIII, including the CIB so perhaps you could just comment on the Transaction banking revenues. Obviously up a lot year-on-year, but they are down quarter-on-quarter, which slightly bucks the trend versus what we've seen at US Peers. So perhaps you could elaborate on what drove the quarter-on-quarter decline there.

And the second and broader point on deposits and pricing, just in relation to the 14 point FCA action plan. I think that fair value assessment was due by the end of August, you had to provide details on communication and evidence, what you are providing to the consumer by the end of September. I think the next big thing is this whole debate around on-sale versus off-sale, which comes in from the 31st of July 2024. So, anything you could say on-sale versus off-sale, how big a bucket of off-sale products you have, how the pricing compares, [etc.].

Anna Cross

Okay, so let me start. So, in terms of Transaction banking, this step back quarter-on-quarter, there was a relatively small impact from deposit migration. And again, I would say within Corporate, we're seeing migration from our non-interest bearing into interest bearing, but those deposits are remaining within the bank. So that's certainly not the larger part of it. What we did see is an impact from the returns in our liquidity buffer. There's nothing idiosyncratic going on there, more that, for any liquidity buffer, the returns are in two parts. The first is the carry, and then the second is in any particular quarter, you would see some disposal income. In this environment, that disposal income has been very, very low, and given that much of that buffer income is actually attributed to Transaction Banking, it's had a disproportionate impact in this quarter. That will obviously move around a little bit, so, we'll see what happens through the fourth.

So, on the consumer duty piece on FCA we actually did our mailing through July and August in relation to savings. That was exactly, as you point out, designed to ensure that our customers are, very much aware of the savings businesses that we have and the rates on offer and, increasingly we see our customers using digital means to look and observe that anyway, but that mailing is behind us. We will do a further mailing in November and December to our current accounts and for us, off sale is relatively small, so I wouldn't call it out as an impact.

So, with that, thank you, Andy, for your final question. Really appreciate you attending the call today. Thank you for your continued interest in Barclays. We look forward to seeing many of you on the road over the next couple of weeks and of course, the sell-side community at the breakfast. But thanks very much, everyone, and have a great rest of the day.

C.S. Venkatakrisnan

Thank you very much.

Operator

Thank you. This concludes today's call.

Important Notice

The terms Barclays or Group refer to Barclays PLC together with its subsidiaries. The information, statements and opinions contained in this document 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 and as such rules and regulations form part of domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended. All such regulatory requirements are subject to change and disclosures made by the Group will be subject to any resulting changes as at the applicable reporting date;
- 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 December 2021, updating the Bank of England's June 2018 policy statement, and its MREL requirements communicated to Barclays by the Bank of England. Binding future MREL requirements remain subject to change, as determined by the Bank of England, taking into account a number of factors as described in the policy, along with international developments. The Pillar 2A requirement is also subject to at least annual review;
- 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.

Important information

In preparing the ESG information in this document:

(i) made a number of key judgements, estimations and assumptions, and the processes and issues involved are complex. This is for example the case in relation to financed emissions, portfolio alignment, classification of environmental and social financing, operational emissions and measurement of climate risk

(ii) used ESG and climate data, models and methodologies that we consider to be appropriate and suitable for these purposes as at the date on which they were deployed. However, these data, models and methodologies are subject to future risks and uncertainties and may change over time. They are not of the same standard as those available in the context of other financial information, nor subject to the same or equivalent disclosure standards, historical reference points, benchmarks or globally accepted accounting principles. There is an inability to rely on historical data as a strong indicator of future trajectories, in the case of climate change and its evolution. Outputs of models, processed data and methodologies will also be affected by underlying data quality which can be hard to assess or challenges in accessing data on a timely basis

(iii) continued (and will continue) to review and develop our approach to data, models and methodologies in line with market principles and standards as this subject area matures. The data, models and methodologies used and the judgements estimates or assumptions made are rapidly evolving and this may directly or indirectly affect the metrics, data points and targets contained in the climate and sustainability content within this document and the Barclays PLC Annual Report. Further development of accounting and/or reporting standards could impact (potentially materially) the performance metrics, data points and targets contained in this document and the Barclays PLC Annual Report. In future reports we may present some or all of the information for this reporting period using updated or more granular data or improved models, methodologies, market practices or standards or recalibrated performance against targets on the basis of updated data. Such re-presented, updated or recalibrated information may result in different outcomes than those included in this document and the Barclays PLC Annual Report. It is important for readers and users of this document to be aware that direct like-for-like comparisons of each piece of information disclosed may not always be possible from one reporting period to another. Where information is re-presented, recalibrated or updated from time to time, our principles based approach to reporting financed emissions data (see page 87) sets out when information in respect of a prior year will be identified and explained.

Information provided in climate and sustainability disclosures

What is important to our investors and stakeholders evolves over time and we aim to anticipate and respond to these changes. Disclosure expectations in relation to climate change and sustainability matters are particularly fast moving and differ in some ways from more traditional areas of reporting in the level of detail and forward-looking nature of the information involved and the consideration of impacts on the environment and other persons. We have adapted our approach in relation to disclosure of such matters. Our disclosures take into account the wider context relevant to these topics, including evolving stakeholder views, and longer time-frames for assessing potential risks and impacts having regard to international long-term climate and nature-based policy goals. Our climate and sustainability-related disclosures are subject to more uncertainty than disclosures relating to other subjects given market challenges in relation to data reliability, consistency and timeliness, and in relation to the use of estimates and assumptions and the application and development of methodologies. These factors mean disclosures may be amended, updated, and recalculated in future as market practice and data quality and availability develops.

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. 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 directors, officers and employees of the Group (including during management presentations) 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 levels, costs, assets and liabilities, impairment charges, provisions, capital, leverage and other regulatory ratios, capital distributions (including dividend policy and share buybacks), return on tangible equity, projected levels of growth in banking and financial markets, industry trends, any commitments and targets (including environmental, social and governance (ESG) commitments and targets), business strategy, plans and objectives for future operations and other statements that are not historical or current facts. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements speak only as at the date on which they are made. Forward-looking statements may be affected by a number of factors, including, without limitation: changes in legislation, regulation and the interpretation thereof, changes in International Financial Reporting Standard (IFRS) and other accounting standards, including practices with regard to the interpretation and application thereof and emerging and developing ESG reporting standards; the outcome of current and future legal proceedings and regulatory investigations; the policies and actions of governmental and regulatory authorities; the Group's ability along with governments and other stakeholders to measure, manage and mitigate the impacts of climate change effectively; environmental, social and geopolitical risks and incidents and similar events beyond the Group's control; the impact of competition; capital, leverage and other regulatory rules applicable to past, current and future periods; UK, US, Eurozone and global macroeconomic and business conditions, including inflation; volatility in credit and capital markets; market related risks such as changes in interest rates and foreign exchange rates; higher or lower asset valuations; changes in credit ratings of any entity within the Group or any securities issued by it; changes in counterparty risk; changes in consumer behaviour; the direct and indirect consequences of the Russia-Ukraine war on European and global macroeconomic conditions, political stability and financial markets; direct and indirect impacts of the coronavirus (COVID-19) pandemic; instability as a result of the UK's exit from the European Union (EU), the effects of the EU-UK Trade and Cooperation Agreement and any disruption that may subsequently result in the UK and globally; the risk of cyber-attacks, information or security breaches or technology failures on the Group's reputation, business or operations; the Group's ability to access funding; and the success of acquisitions, disposals and other strategic transactions. A number of these factors are beyond the Group's control. As a result, the Group's actual financial position, results, financial and non-financial metrics or performance measures or its ability to meet commitments and targets 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 Barclays PLC's filings with the US Securities and Exchange Commission (SEC) (including, without limitation, Barclays PLC's Annual Report on Form 20-F for the financial year ended 31 December 2022, and Interim Results Announcement for the six months ended 30 June 2023 filed on Form 6-K), which are available on the SEC's website at www.sec.gov.

Subject to Barclays PLC's 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. Non-IFRS performance measures are defined and reconciliations are available in our results announcement for the period ended 30 June 2023.