

Barclays PLC Q3 2021 Results**21 October 2021****Results call Q&A transcript (amended in places to improve accuracy and readability)****Rohith Chandra-Rajan, Bank of America**

I had a couple, please. Just to clarify what you're saying on slide 23, particularly the right-hand side on capital, so beyond the start of 2022. The slide looks like organic capital generation is offset by other headwinds, but I think, you commented that you expected to be net capital generative, so I was just wondering if you could clarify what it is you're saying there, and if you're able to put any numbers around those other headwinds? That was the first question.

And then the second was just on the CIB, and particularly cost: income there. It's obviously a good revenue performance there, keeping up with peers, and the cost: income, mid-50s for the last few quarters is also pretty much in line with your major peers, is that a level of efficiency that you think you can maintain, even if we get some fade in the revenue environment for the CIB?

Tushar Morzaria, Group Finance Director

Thanks, Rohith. Why don't I start on both of those questions, Jes may want to add a word or two. On your first one, in terms of the future capital path beyond this year and into next, I think the gist of your question is are we expecting to generate more capital than the various technical headwinds, business growth and [other items] that we may have, I'd caution you, before you get your rulers out and try and figure out from the slides whether there's any subliminal message there, there isn't.

It's what it's been over a number of years, we do expect to be net-capital generative over most years, and there will be headwinds from time to time but I think we've got a sustainable level of profitability and it should more than compensate for that.

In terms of CIB efficiency, to be honest while efficiency metrics are important for us, returns are more important. The way we think about it is we want to keep the CIB above double-digits at least through a cycle, if not most points in the cycle. The way we think about it, it's almost just a fact that to be above 10% you're going to be operating at the kind of efficiency levels that we broadly have today. It'll go up and down, obviously, depending on where variable pay goes and where income goes, but to get to a 10% or so return on these sorts of capital levels, you have a reasonably efficient unit, and that's how I think about it.

Jes Staley, Group Chief Executive

If you take away the structural cost actions, particularly the cost of the building exit here in Canary Wharf that we took the charge on in the second quarter, our cost: income ratio is 61% [YTD], the target's 60%. I think how we get below 60% will be more a function of efficiencies in BUK than in CIB.

Alvaro Serrano, Morgan Stanley

A couple of questions from me. On the CIB revenues, obviously a very strong performance and a beat versus consensus, but looking at your US peers, the mix is different, it seems like Equities are probably not as strong, and you made up for it in fees, can you maybe talk through what you think explains that, in particular in Equities? And as

we look forward, does that have any implications for the outlook or how we should think about the outlook and the pipeline from here?

My second question is on costs. I've seen you've given the rate sensitivity, which is obviously very relevant at the moment, but on the costs, and particularly on the base costs, that £12bn, I think in the last call, you eluded to that you would expect roughly the same number, I seem to remember, in 2022. Obviously, the inflation picture is picking up and the offset to the rates could be costs, I don't know if you can make any reflections, are you going to be able to offset cost inflation with cost efficiencies in 2022 as well, as I think you eluded to in the previous quarter?

Jes Staley, Group Chief Executive

Thanks, Alvaro. I'll take the first question and Tushar will take the second one on costs. On the CIB revenues, first, on the Markets side, we were a little bit lighter than the US peers. I'd say it's a function of two things. One, Asia. Asia Cash Equities for the US firms was quite robust, and as you know our strategy for the last six years has been focusing more on the US and in Europe. So that's going to be one issue.

The second one, you obviously had a very robust IPO calendar, I think when you look at Goldman's numbers, their position has been lead left, and that clearly helps those numbers, but we're very happy with our Markets business overall, and on a year-to-date basis, the numbers are really strong.

And then, if you look at IB fees as sort of the primer for your overall investment banking results, there we outdid the US peers, and it was the most profitable, or highest revenue number, in Advisory, DCM and ECM fees, the bank has ever had. So I think it's a pretty good story, actually, for the quarter and for the year-to-date.

Tushar Morzaria, Group Finance Director

Yes, and I'll just maybe round that off, Alvaro, by saying we set a record [Q3] in Equities, so in fact for those of you who've been following Barclays for some time, the Equities revenues are approaching our fixed-income revenues, so the diversification in our Markets business is something we're very pleased with.

Just moving on to costs, yes, I think you're very right to point out inflation, for us, it's principally about labour costs, that's the real [driver of] of inflation for us, rather than other complicated supply chain mechanics. It's something we're used to. We obviously have a lot of our operations in India, and we've had that for some years. That's a high-inflation country, so we are used to having to deal with, on a percentage basis, meaningful increases in labour costs year-on-year. We do that by absorbing that through our own efficiency programmes.

Of course, if that spreads around to all other countries, that puts a bit more pressure on. I think for now, for planning purposes now, the £12bn into next year feels about right, but we'll see how we do in terms of ensuring that we have a sufficient efficiency programme to more than offset that, while continuing to invest in the business. I feel it's a very good time to be investing in the business. But for now, £12bn feels about right, and we'll certainly keep you posted as we go into the rest of the year.

Jonathan Pierce, Numis

Two questions. The first one, the hedge, there was obviously a huge build in the hedge in the third quarter. It was more than the capacity you said you had at the end of the second quarter, so I'm wondering is there more to go on the hedge? And maybe you could talk to how this hedge was put on in the third quarter? Is it fully-feathered, so a 60th of it will roll off every month from now over the next five years? So the first question is on the hedge.

The second question, thanks for your updated rate sensitivity, I wonder though if you could just talk to the subset of the £275m that specifically relate to an increase in UK base rate? We can kind of triangulate it, pull out the structural hedge, pull out the non-UK part, of Barclays International, but maybe you could just tell us how much of the £275m would arise as a result of a 25bps move up in the short end in the UK?

Tushar Morzaria, Group Finance Director

Why don't I take both of them. In terms of the hedge capacity, we're fully expressed in terms of the amount of nominal hedge that we want to be running. You're right that we guided to increasing that hedge nominal at Q221, which is broadly what we've done. Obviously, deposits continue to track up anyway, so that's got an influence in there, but we're sort of, if you like, where we would like to be.

In terms of the roll profile, yes, there's nothing unusual, it's the same sort of strip of swaps that we've used for a number of years. So into next year, if you want to look at it on a 12-month basis, it's somewhere between £30bn and £40bn of roll that you should expect, and that'll refinance into whatever rates will be prevailing as we go into next year. And as you know, we express that as a strip of six to seven-year maturity swaps.

I think the point of your second question was can you just tell us how much of the year-one net interest income sensitivity comes from just base rate rises and pass-through assumptions versus just hedge roll. I would say in the majority in year one. You'd say it was probably more driven by base rate rising than the grinding effect of the hedges coming through in years two and three.

Obviously, all of this will be somewhat dependent on the shape of the curve that we use as a reference point and how steep it is or what have you, but think of it as being, at the front end, the first year mostly, a base rate story, and beyond that the grinding effect of the structural hedges. I won't throw out a number, but it at least gives you a sense of how we think about it.

Jonathan Pierce, Numis

Okay, that's helpful, but just to clarify, it looks like £50m of the £275m is the hedge, so let's call it low-£200m in terms of deposit revenue specifically. Nearly all of that is UK base rate-driven?

Tushar Morzaria, Group Finance Director

Yes, that's right. It's predominantly sterling. Don't forget that that is obviously split across our UK bank as well as our international bank. You've got a large UK corporate business in there. It is almost entirely a sterling exposure, but 60-40 across the UK and international.

Joseph Dickerson, Jefferies

I guess one thing to me is why are you being so conservative, at least from external observers' point of view, with the £2bn of management overlays that you've got sitting in your provisions. When I look at a 15% loan-loss reserve on the UK unsecured book and nearly 12% on US cards, which would kind of be levels I would have thought about if you had an 8% or 9% unemployment rate as a base case in each jurisdiction.

So why the conservatism? I hear you on things like furlough schemes, etc., but it still seems like a fairly high number, particularly when, if you go back, the management adjustments at the FY20 were about 15% of your overall ECL allowance. So I guess what's driving that, there?

And then, are share buybacks still something you'd like to do with your CET1 ratio at 15.4% and, yes, lots of moving parts but hopefully still capital generation in the fourth quarter? Or are there inorganic opportunities you might look at as well?

Tushar Morzaria, Group Finance Director

Why don't I take the first one and I'll ask Jes to talk about capital returns. The £2bn of management overlay, it's really there because, as you're aware, when we wrote these models, there was no concept of a pandemic as a scenario we could have modelled, no historical calibration that we could have used, and we don't think these models really can pick up the effect of government support, and more importantly the removal of government support schemes.

So in some ways, you're right, we're getting towards the back end of them. But having said that, the furlough scheme in the UK is just being unwound now. We do have, which most people probably don't appreciate as much, the support

schemes in the US which are actually still in place and will go on a bit longer. You've got the CARE Act and social security payments and extended unemployment benefits.

But as these schemes begin to unwind, we'll see the full effect of that, and either the models have underestimated the amount of distress that may present itself, in which case we'll digest the provision, hopefully, and won't need any more, or alternatively it turns out it's a much more smoother adjustment than we may have thought it could have been, in which case that'll be positive for us.

The final word on credit, just before I hand over to Jes, is I would just stress how benign the credit environment is when we look at a few things like delinquency data, they are as low as we've seen. I think you've got multi-decade lows in the US. And if you look at our watch-list, which is names that we would be closely monitoring as a credit risk in our Corporate and Investment Banking business, that's about as light as I've seen as well. So the credit environment is benign.

Joseph Dickerson, Jefferies

That was the point I was getting at.

Tushar Morzaria, Group Finance Director

Yes, it's a good environment, if you like, to be going into the removal of the support schemes. So we'll see how that plays out. Jes?

Jes Staley, Group Chief Executive

Yes, on the buybacks, that still remains an instrument for us to use as we return excess capital to shareholders, which is clearly our goal. I think returning capital, whether it's through dividends or buybacks, there needs to be a certain cadence to it. We've done £1.2bn this year. The second buyback, of £500m, that's still in progress now. So we are buying back stock, and that will be something we will continue to do in the future.

In terms of inorganic, clearly, if we see an opportunity we'll invest our capital. I think the best example would be the Gap transaction, where we will increase our number of consumers in the US that have a Barclays credit card from 11m to 22m in that single transaction. So we will make investments like that that we think will be very valuable in the long run.

But we also recognise the economics of the buyback are pretty hard to beat, given where our stock is trading. We closed the quarter with a very strong capital print of 15.4%, and we continue as an objective to return excess capital to shareholders.

Omar Keenan, Credit Suisse

I just have a follow-up question on rate sensitivity, and one on the capital plan. Just on the rate sensitivity, I was wondering perhaps if you could use your view of the competitive landscape to perhaps tell us, or give us a guess of, perhaps how long the new upgraded rate sensitivity, to £275m, can be maintained as the Bank of England hikes rates, and what sort of level of base rate it might be before we get to something that looks closer to £150m again? And then, just on a point on the rate sensitivity, the £275m, is that an exit benefit from year one rather than a change to NII over the first year?

And then my second question on capital was just a follow-up to Rohith's point. If I think about the 14.7% from 1st Jan 22, and if we wanted to super-fully load that, and a couple of banks are talking about 5% inflation to risk-weighted assets from the completion of Basel, that would take that number to about 14%, that would sort of imply that pretty much all of the earnings going forward should be freely available for shareholders, at least for a number of years. Is that broadly right, or are we ignoring something like output floors?

And just related to that and the point on the Gap portfolio, when you look at the M&A opportunities out there, are there still interesting things available?

Tushar Morzaria, Group Finance Director

Thanks, Omar. I'll get Jes to talk about inorganic opportunities and how we think about that. On the rate sensitivity, think of this as, we're not trying to be too clever here. It's taking the yield curve as you see it, immediately shifting it up by 25bps parallel and running that each calendar year. So it's assuming that rates went up instantaneously today, and then what would happen in the first year, based on our own sense of where deposit rates would reprice to, in other words, our own pass-through assumptions and the grinding effect that we would see on our strip of swaps grinding into higher fixed receipts.

So in terms of your question about will that sensitivity decrease, I think perhaps what you're really looking into is will pass-through assumptions change as base rates continue to increase? That gets quite hypothetical. I think it's been a long time since we've had a sustained rate rise from such a low level, so I'm loathed to speculate, but generally speaking we've got a lot of liquidity and that's really the backdrop of it, and you might find you pass through a little bit more as the rate environment gets higher and higher.

The other thing I would stress though is we have lots of different liabilities, we have obviously corporate liabilities, we have everyday savers accounts, we have current accounts, we obviously have fixed-term deposits, we have savings bonds, so it's not a one-size-fits-all, which does make it quite tricky to see from the outside. So the sensitivity we've given you is really just all of that blended in and how we see it.

In terms of capital and the flight path, just before Jes talks about inorganic, Basel IV, I think we're due a consultation paper by the PRA over the winter months, that'll give us some clarity as to what we may see there. I think many banks who've tried to have a stab at this already go somewhere between 5% and, in some cases, 10% of RWA inflation, and I guess when we get the consultation paper out, we'll be able to give better guidance of what it may mean for us.

Timing of this will be important. I know that analysts like to fully load, and I sort of understand that it makes sense, but if this thing's going to be implemented in two, three, years out, then we have a good track record of adapting to that.

Output floors, again I wouldn't speculate on that. That feels slightly further out on the horizon, and I wouldn't want to speculate on where that may go until we get clarity from the regulators. But by and large, I think the gist of your question, or your almost inferred answer, is about right, which is we are net-capital-generative, and it's important that we aim to get the bulk of that capital back into shareholders hands. And that'll lead me on to Jes talking about inorganic.

Jes Staley, Group Chief Executive

I take the context that six years ago we set the strategy of the bank to be the universal banking model that we've got, and what we've really been striving for is to provide Barclays a level of stability that I think, for many years, it did not have. Now, it leads to the most profitable nine months in the history of the bank. And I think we are reaping the rewards of the stability of our strategy, and that is paramount to the bank.

We will engage in transactions that have real structural gains for us. I think the partnership we have with Amazon in Germany, and now Amazon in the UK, where every time someone goes on Amazon to make a purchase and they go to the checkout and if it's over €100, in the case of Germany, you're getting a number of options to finance that purchase, that's all Barclays behind that. And so that's an extremely important relationship we have with Amazon.

And then, there are a number of less visible ventures, where we are partnering with FinTech companies to advance the digitisation of our offering, particularly our consumer banking business. So we will partner with people and we will have alignments with things like Gap and like Amazon, but I think when we are delivering the level of returns that we are delivering now and we're pretty confident we can maintain through the cycle, 10% or better return on tangible equity. It's a strategy that's working, and we want to endorse that strategy.

Guy Stebbings, Exane BNP Paribas

The first one is on consumer asset quality. And I ask because there were some slightly interesting movements in terms of ECL in the period. There was a 4% increase in stage-two exposures in international retail balances, with £185m increase in ECLs in this segment, which I assume drove the CC&P impairment charge in the period, but it doesn't look like there was much flow into stage-three.

You haven't seen a pick-up in arrears, and your other commentary all sounds quite reassuring, so perhaps you could just give a bit more colour as to what drove the increase in stage-two retail in the US, which didn't seem to be the case in the UK? Was it something to do with a model assumption, perhaps?

And then the second question, just back on Barclays UK NIM, I guess we're now in the back-end of October, so I presume you've got very good visibility on the mortgage pipeline, completion spreads, etc., so can we think about the circa 250bps as being pretty much 250bps spot, just given where we are at this point in the year. 1-2bps on the full-year number has quite a big delta on the implied exit rate, so any colour there would be useful.

Tushar Morzaria, Group Finance Director

On asset quality, particularly in the US, one of the things that might not be obvious to folks is when we took on the back book for AARP, actually you have to bring on the day-one impairment provisions through the P&L, so that, if you like, has a slightly non-recurring effect in this quarters charge in CC&P.

So of that £110m, I think it was, in CC&P, between £20m and £30m of it was coming from AARP on day one, so that's a non-recurring. You will actually see the same thing happen again for Gap when we bring that on, probably in the second quarter. So I'll leave it to you whether you want to look through that or how you think about that. So hopefully that's helpful.

Away from that, of course, as I mentioned, credit quality is looking very benign, we're not really seeing any signs of stress at the moment

Mortgage margins, or UK-blended net interest margin, I won't give a precise number. Even though, like you say, there are only two and a half months of business to go before the calendar year-end, things can still move around a little bit, depending obviously on base rate changes which may or may not come before this side of the year-end, and I'm not the kind of guy that wants to speculate on that. But we think we'll be somewhere around the 250bps full-year NIM, and we'll stick to that guidance rather than give anything too precise for the moment.

Guy Stebbings, Exane BNP Paribas

Okay, and just to clarify, I assume that 250bps doesn't assume any benefit from a base rate hike, this side of New Year?

Tushar Morzaria, Group Finance Director

No, we don't believe we've got a crystal ball on that, no.

Chris Cant, Autonomous

If I could just clarify your rate sensitivity comments, please? On the currency split, if I look at your annual report, that shows an FX split with a bit under 50% coming from sterling, so has the balance sheet changed? What on the balance sheet has changed over the nine-months such that the vast majority of the sensitivity is now to sterling?

And as a further point of detail, what deposit beta are you assuming in the £275m, please? My understanding was the previous disclosure you gave in the slide assumed about 50%, so you've increased the sensitivity by 80% in the £225m, what are you now assuming in terms of deposit beta?

And then, if I look at the CIB, obviously you've had another very strong period in the nine-months, if I look at the nine-months as a whole and I compare against the equivalent period in 2019, so pre-COVID, ignoring 2020 when you had

very elevated provision charges in that division, revenues are up 23% on the Q319 YTD, and costs are only up 1%, and this is nine months, so we're looking through the levy.

I know you referenced a variable remuneration top-up, which you took in Q121, but looking at those numbers in the round it's not obvious that you've had much of a comp reaction to the dramatically high revenues. If revenues reverse, going forwards, should we actually expect costs to flex lower? Or does a revenue decline just fall through to the bottom line? Because it looks like the revenue step-up has largely fallen through to the bottom line in this period.

Tushar Morzaria, Group Finance Director

I'll take both of them and Jes may want to add some more comments on investment banking compensation. In terms of the rate sensitivity, I think you're trying to compare an annual report disclosure to what we have on our slide, but there is a difference in basis of prep. In the previous sensitivities, we just took a hypothetical 50% pass-through everywhere, whereas this time round, I guess, the likelihood of changes in interest rates becomes more real. We'll see if that ever happens or not, but at least that's what conventional thinking is, we've tried to give more of an indication of what may really happen, rather than just a hypothetical 50%.

I think if you want to go through the basis of prep, which sounds like you may want to do, I suggest I'll get someone in IR to give you a call after this, and they can take you through it, just so you've got the various moving parts. In terms of the CIB and compensation relative to income improvements, I guess again it all gets a little bit complicated because of the accounting, the accounting compensation component, as compared to the actual size of the bonus pool, and you've probably seen this in previous disclosures, aren't unfortunately the same thing, just given the way deferrals and everything works through.

I would say though, if you look at a year like 2021, we accrued a meaningful increase in the bonus pool, as you'd expect us to do, when returns performance was strong. It's not just really an income story for us, we do try and look at returns, holistically.

We would obviously flex that down, of course, if performance is not as strong as it is this year as it was next year, that will feed through. But again, under IFRS 2, you do get the slight timing mismatches between, if you like, economic awards and the way they're accounted for. And again, you're probably pretty good at that already, Chris, but maybe worth someone in IR just maybe taking you through some of the bigger moving parts.

Jes Staley, Group Chief Executive

We do want to obviously stay competitive with the market, and we are constantly tracking how the industry is accruing and what information we can glean about the direction of compensation. As Tushar said, we are accruing at a pretty robust level of variable compensation this year, and I feel very comfortable that we will remain competitive with the US firms in terms of banker pay.

Chris Cant, Autonomous

In terms of the 2019 comparison and the deferred compensation, I know that was an issue for you historically, I thought that had largely worked through by 2019 in terms of the changes that you made a few years back on the accruals. So basically, it's just a function of what your competitors are paying. So if revenues come down at an industry level, and comp does not flex down elsewhere, then we would expect to see the same thing for Barclays. So the cost line is really going to be a function of what we see elsewhere, is that how we should think about it?

Tushar Morzaria, Group Finance Director

We won't labour this point but you've hopefully seen us move compensation over the years, up and down, based on performance. During 2019, actually we flexed compensation down, which was actually on the back of an up year for the investment bank, because we're trying to get the right balance between shareholders and employees. So I don't want to labour the point but obviously all things matter, your relative position, your own performance, particular areas of investment. All things matter.

Robert Noble, Deutsche Bank

On the US card business, how much of the drag on income comes from acquisition incentive costs in cards? And what is it normally, what's the additional spend that you're putting through the top line to acquire customers at the moment? And should I expect that to increase or stay at the current levels that it is?

And then secondly, thank you for the interest rate sensitivity disclosure. If I look at market interest rate expectations now, which are way higher than 25bps over the next three years, do you expect that you will actually see a net benefit on the entire balance sheet from interest rates following the path that's implied by the market at the moment? Or would you lose the same amount in asset spread compression, or less?

Tushar Morzaria, Group Finance Director

In terms of acquisition costs, sort of contra-income as well as on the cost line, we believe this to be a growth business, we want to be opening new accounts continuously. Hopefully, we'll be adding portfolios like Gap in the future as well. So I wouldn't guide to acquisition costs as a kick-start and then it ebbs away.

What you're really seeing is of course a kick-start from very little activity last year, and the income to come through later on. You've got to remember for us we think about this thing as a three-stage thing. First of all, people need to be attracted to your card, and so that comes with new account openings and various rewards programmes that encourage new account openings. That's a continuum.

Secondly, once you have the card, you've got to be incentivised to utilise that card and be top-of-the-wallet, so that's not just new accounts but your existing customers, and that requires marketing spend and branding, mostly on our partners' behalf, and that's a continuum.

Then, of course, you see these new activity levels, new account openings and spend levels which are actually better than pre-pandemic levels already in some cases, you would expect that to translate into revolving balances. So I think the way I think about it is while we won't quote a number out to you, think of these as recurring, perpetual if you like, costs in a growth sector.

In terms of IR sensitivity as rates go higher and higher and higher, we've given it as a blunt parallel shift to 25bps, I get the point that people would want to have all sorts of scenarios that we would run for them, different yield curve shapes and everything. We'd be doing that every single day. I remember six months ago we were talking about negative rates. So who knows what the future will be. We don't try and be too clever on that, so we'll try and refrain from running multiple scenarios.

I do think one thing you are raising is how linear is the sensitivity? Obviously, for long rates, it's completely linear, it's just a mechanical effect of swaps grinding into higher fixed receipts. In terms of the base rate effects, the pass-through assumptions probably will change as you go up the base rate increase spectrum, and generally speaking it's hard to be precise on this because we haven't really experienced this historically from such a low level, but you'll probably end up proportionally passing through more as you get into higher rate levels.

Somewhat driven because you've got so much liquidity in the banking system, and if we're about to change to higher interest rates, I guess you may pass on through more, but that becomes pretty hypothetical at the moment, hard to be precise on it.

Fahed Kunwar, Redburn

I just had one question on CC&P. If I look at Q321, the run rate right now is £3.2bn, and I appreciate your points around the J curves and the Gap balances coming on but the 16% growth implied in consensus, it feels very strong. Can I get a sense of scale of how you see that J curve progressing when we think about CC&P revenues in 2022?

Tushar Morzaria, Group Finance Director

I'll refrain from giving a precise number because revolving balances we do expect to increase next year, but it's very hard to be precise, just given that we don't have any historical levels to calibrate on. I wouldn't, of course, annualise

what you've currently got. We would expect income to be up next year. Obviously, if we see revolving balances increase sooner in the year, that increase will be higher, and you've got the Gap portfolio coming in the second quarter.

So I'll refrain from giving precise guidance but we are optimistic as we go into next year. Account openings, as I say, are running really strongly, activity levels are running really strongly, credit conditions remain benign. We've seen a very strong payment recovery already this year, that's included in that segment, and that we expect hopefully will continue to bounce higher into next year. So we are optimistic in where that business is going.

And in some ways, we were probably a little bit more cautious about the pace of revolving balance increase, and for once we may have been right in our caution, it does seem to be more playing out to how we expected than perhaps some other optimism out there. But that's okay, we're optimistic into next year.

Jes Staley, Group Chief Executive

As Tushar said, the leading indicators are account openings and consumer spend and payments, and that, we are back to pre-pandemic levels, so that should forecast well in terms of balances recovering as well.

Robin Down, HSBC

If I could start with the NII sensitivity, obviously the structural hedge element of that hasn't really changed, other than volume growth, since you last gave the sensitivity, which kind of suggests that the non-structural hedge element has roughly doubled.

I think previously you were talking about a 50% pass-through of the first 25bps rate increase, and it still feels like you're not quite at zero pass-through with these numbers, it doesn't quite square with that going from roughly £100m sensitivity up to just over £200m. One of your competitors, though is assuming zero pass-through, so I just wondered if, ballpark, you can say, yes, we're assuming zero pass-through on retail and commercial deposits for customers, or whether you're still being a bit conservative here?

And the second question, on the capital, can I put it a slightly different way to the way that Joseph put it earlier on? Is there any particular reason, as we run through the early part of next year, why you should be running comfortably above the 13% to 14% target range that you set? Is there any particular reason why you feel the need to retain extra capital above that? Or could we realistically expect everything above that range to be handed back to shareholders fairly early on?

Tushar Morzaria, Group Finance Director

Why don't I start on both of them and Jes may want to add some words on capital. On interest income sensitivity, I won't speculate on other competitors' pass-through assumptions or pricing or what have you, that wouldn't be appropriate. I think for us, we used to use a blunt 50% as a hypothetical, arbitrary number.

I guess as I've said before, most people are expecting rates more likely to move than not at the moment, who knows if that's the case, and so we've tried to be a bit more helpful in terms of what our pass-through assumptions could be in reality.

Of course, there are so many different products out there, I don't think it's that sensible just to give a single number, because obviously corporate deposits are different to current accounts, different to consumer saving accounts, different to private bank accounts, different to fixed-term deposits, you name it, but it's at least our sense of indicatively what may happen.

And so I'd probably leave it there. I'm not sure there's much more I can say, other than you're, I think, really trying to get to are we being unnecessarily conservative? We don't think so, but others will be the judge of that, I guess, and we'll see when that happens.

In terms of capital returns and the 14%, I think what you'd expect from most institutions is that you'd expect us to be predictable, reliable, consistent in terms of how we get capital back to shareholders' hands. So we did a buyback

at the full-year results, we did another one at the interim, basically announcing them alongside our dividends for the full year and the interim.

The 13% to 14% stated target is our target. There are some headwinds that we've called out. There'll be more information around Basel IV and things like that, but you would expect us to be a reliable, consistent returner of capital back to shareholders at appropriate levels, and really this is probably something that we discuss more at the full-year results rather than an off-quarter like this. But Jes, was there anything else you want to add?

Jes Staley, Group Chief Executive

At the interims, the statement we made was that we have a progressive plan for our dividend, so we'd like to see a predictable increase in our dividends over the cycle, and want to put behind us 2020. So you should expect that. And as I said, there'll be a cadence to returning additional excess capital, so yes, we're continuing with our target of 13% to 14%, and as we come out of this pandemic, in a more normalised environment, our flexibility just increases.

Martin Leitgeb, Goldman Sachs

Just two questions, both related in a way to interest rates. And I was just wondering if you could comment on the outlook for fixed revenues, in the light of prospects of higher rates both in the UK and in the US? Do you see this as potentially constructive for the industry's revenue outlook from here, just given volatility, steepness of the curve? Or could you see some headwinds in terms of some of the valuation impact?

And for the UK specifically, I was just wondering, you've seen an increase of around 40-50bps in the two and five-year swap rates, would you expect banks to increasingly pass on this increase at the mortgage rates, or do you think the competition could be such, just given excess deposits, that there might be a limited pass-through?

Tushar Morzaria, Group Finance Director

I think as long as asset prices are still well supported, and financial markets are still orderly, and there's a functioning economy, generally speaking, higher rates are a positive in both wholesale and consumer business.

In regards to FICC, I think in a higher rate environment, you might see wider financing spreads, might see wider bid-offer spreads, really just as a function of higher rates. Obviously, as asset markets move around, that tends to increase implied volatility levels, which tends to be better for pricing, it tends to encourage volume, so that tends to be good.

So generally speaking, yes, asset markets that move around and sort of drift higher, including interest rates, is generally a positive, and I think definitely true for the FICC complex. The financing business is not one we've talked about much. We've talked a lot about financing in Equities. Financing spread in FICC are almost at all-time lows, so if they widen, that will be very positive for our business.

And the UK mortgage market, I think you sort of summed it up well, there's this tension between higher wholesale swap rates and a lot of liquidity, our loan to deposit ratio I think is even below 70%, at the group level, that's how long-liquid we are, so I think you'll see that tension.

I think you're seeing participants in general probably beginning to increase customer rates, I think you've seen a few lenders do that last week. That sort of makes sense, in a way, just because of the compression, as you point out, that's come through from the two to five-year swap rate, and I think most lenders will be looking very closely and making sure that they're still able to meet their hurdle rates. So that might provide some sort of pricing support, but it's hard to be too precise as we go further out, there is a lot of liquidity in the banking system, as you're aware.

Benjamin Toms, RBC

Just one from me, please. Can you just talk a little bit about your ambitions to enter the buy-now-pay-later space? Thank you.

Jes Staley, Group Chief Executive

We are actually in the buy-now-pay-later business today, but in a regulated way. What we're not going to do is get into the unregulated buy-now-pay-later space, which we think may not be long unregulated. But I think the customer care efforts of the banks ultimately will accrue very much to our favour. So offering consumers different ways to finance purchases, I think, is an important activity of the bank. We do it very actively in the UK, we do it very actively in the US, and in Germany, but the non-regulated space, we're not going to get involved in.

Adam Terelak, Mediobanca

I just wanted to ask about the structure of the buyback. Clearly, you're announcing it at half-year and full-year, but that means that there are periods of the year where you're not able to be in the market, so the current £500m will be done well before you report Q421 results.

Given the capital strength, given you're clearly looking to return more, would it not make sense to be announcing buybacks and top-ups to the accrual for that buyback on a more regular basis?

And then secondly, I wanted a bit more detail on UK NII for the quarter. You're flagging some headwinds from the interest-earning assets in the consumer business, can we have some numbers around that, just to size that and build it into the model? And just a bit of discussion as to how acquisition costs on balance transfers and things is looking, how much of a headwind that is, and how that might develop over the next few quarters would be great.

Tushar Morzaria, Group Finance Director

On the timing of share repurchases, share buybacks, it's been a long time since Barclays as an institution has done a share buyback. We announced one at the full-year results, we announced another one at the interim, so I think that's probably the kind of cadence that you should expect from us.

I think for banks, we don't try and have the crystal ball on share prices or interest rates or anything, we just want to be consistent, predictable and a regular cadence, and that's what you should expect from us, whether that comes in share buybacks or indeed managing our interest rate sensitivity or what have you. It's more that than trying to be too clever and in and out and trying to time things and what have you. So that's what we're about, and that's what you should expect from us.

In terms of acquisition costs with regards to net interest income, yes, I think a previous questioner asked can we size these, which we haven't done in the disclosure so I won't put it out on call like this, but I would say that these are continuums, so think about these as costs that we would expect, assuming we're growing our businesses, which we expect to for the foreseeable future, to be incurring for some time.

And I think as soon as you see revolving balances increase, you'll be able to see what sort of net interest income that generates. In some ways, it's not that complicated for you guys to do, you probably know what we charge on these cards and you know what a billion of balances would give you in terms of net NII, less funding costs, so you can probably go back and get a pretty good sense for yourself, but think of these costs as not one-off, but permanent in nature.

Jes Staley, Group Chief Executive

And let me just add, we spent the last decade rebuilding the bank's capital base, which we've now completed, and again we're over our target, and this year, 2021, was really the first year that we began to return meaningful amounts of excess capital to shareholders, so we'll just see how the programme evolves as we go into 2022.

Andrew Coombs, Citi

If I could just ask a big-picture one to finish off and one for Jes which is on the capital markets outlook. You've clearly had a very strong year, if you look at the industry as a whole, it looks like we're going to have the best revenue growth profile since 2009. Obviously, post-2009 we then saw quite a substantial decline in industry revenues. You talked a bit about fixed income, the implication of higher rates, what that might mean with regards to volatility, but I would love a few thoughts on where you see the capital markets revenue profile from here.

And then specifically to Barclays, when you look at the improvement in your own revenue profile, how much do you think is beta versus how much do you think is alpha, so market share gains that are sustainable and you can hold on to?

Jes Staley, Group Chief Executive

As I said, I think there is a fundamental tailwind in the capital markets to the degree that regulators have structured the financial system such as the capital markets are a more attractive place to finance economic growth than bank balance sheets. And I think that will continue, and you see that in the overall level of both the debt and the equity markets, as well as the derivative markets which allow people to manage their risk.

You need to look at volumes in the capital markets, you need to look at spreads in the capital markets, and then you need to look, as you said, at market share. One of the exercises that led to us being optimistic about our position in the investment bank is, going back to 2007, we have twice the level of capital that we had back then, and back in 2007, if you put a triple-A security on your balance sheet, the risk-weighted asset of that was zero, and obviously when we turn the lights on in the morning, we get a risk-weighted asset.

If you took the current profitability of Barclays Investment Bank and applied the capital level of 2007 and the calibration of risk in 2007, we're at 16% return of capital, you could more than double that. And that, to a certain extent, is one way to look at the underlying growth that we've seen in our capital markets in the last decade, and I don't think that is going to reverse.

In terms of beta versus alpha, we have gained market share both in the Markets business as well as in the primary side. That's part of the beta, that's an important part of our improved profitability. I think capacity from the European banks has withdrawn, and I think that has accrued to our business.

And maybe another point that I'd leave you with, as part of the beta, prime brokerage is obviously a very important component of an investment bank. There's a very recurring revenue theme in prime brokerage. We have gone, in the last three years, from being the tenth-largest prime broker in the system, we're now fourth, globally.

And that's business that we have awarded, I think we have a terrific team in prime brokerage, and that underpins, I think, the beta side of our investment bank, if that helps you.

Tushar Morzaria, Group Finance Director

I think that's it for questions, so thanks for joining us this morning. I'm sure we'll get a chance to speak to some of you on the road in the next few days, but otherwise take care and see you all next time.

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The terms Barclays or Group refer to Barclays PLC together with its subsidiaries. Unless otherwise stated, the income statement analysis compares the nine months ended 30 September 2021 to the corresponding nine months of 2020 and balance sheet analysis as at 30 September 2021 with comparatives relating to 31 December 2020 and 30 September 2020. The abbreviations '£m' and '£bn' represent millions and thousands of millions of Pounds Sterling respectively; the abbreviations '\$m' and '\$bn' represent millions and thousands of millions of US Dollars respectively; and the abbreviations '€m' and '€bn' represent millions and thousands of millions of Euros respectively. There are a number of key judgement areas, for example impairment calculations, which are based on models and which are subject to ongoing adjustment and modifications. Reported numbers reflect best estimates and judgements at the given point in time. Relevant terms that are used in this document but are not defined under applicable regulatory guidance or International Financial Reporting Standards (IFRS) are explained in the results glossary that can be accessed at home.barclays/investor-relations/reports-and-events/latest-financial-results. The information in this announcement, which was approved by the Board of Directors on 20 October 2021, does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2020, which contained an unmodified audit report under Section 495 of the Companies Act 2006 (which did not make any statements under Section 498 of the Companies Act 2006) have been delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006. These results will be furnished as a Form 6-K to the US Securities and Exchange Commission (SEC) as soon as practicable following their publication. Once furnished with the SEC, a copy of the Form 6-K will be available from the SEC's website at www.sec.gov. Barclays is a frequent issuer in the debt capital markets and regularly meets with investors via formal road-shows and other ad hoc meetings. Consistent with its usual practice, Barclays expects that from time to time over the coming quarter it will meet with investors globally to discuss these results and other matters relating to the Group.

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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.