

Barclays PLC FY 2017 Results**Sellside Breakfast Q&A transcript (amended in places to improve readability only)****01 March 2018****Tushar Morzaria, Group Finance Director**

The first message that I'd remind people of is that we do believe the underlying business is performing quite well. Momentum continued to build throughout the year and we finished the year in a good position. This was across many of our businesses; our UK retail business had steady growth in the mortgages business, and liabilities are ticking up nicely there as well.

US card net receivables continue to grow at about 12% on a dollar basis, as well as the top line on an underlying basis. We also rolled out a new merchant acquiring platform, which doesn't always get a lot of discussion, but was a very important technology roll-out for us. It is a customer-facing platform that allows us to deliver more products and services and different pricing schedules etc.

We had a record year in investment banking fees, and finished the year in trading certainly better than we were in the earlier part of the year. I think we picked up a bit of market share in the fourth quarter, reversing the trend that we had in the earlier part of 2017. And really that underlying business momentum does give us increasing confidence in the targets that we've set for ourselves for 2019, which I'm sure we'll come on to.

Another important message was the return of capital to shareholders, with the intention to pay a 6.5p dividend for 2018. That's really taking the company back to where it was before we reduced the dividend to accelerate the restructuring of the company, so that was a very important milestone, and we are pleased that we were able to give that guidance. I think that will be a theme from this point on; prioritising return of capital back to shareholders as much as return on capital in terms of earnings.

We also gave some updated guidance on IFRS 9. We guided to a 34 basis point day-one impact, if there were no transitional rules, a bit lower than we had in our earlier guidance. And then, of course, that will phase in, so the likely effect will be probably lower than 34 basis points, given the phasing in schedule.

On tax rates, the benefit from the US tax reforms, or at least tax changes, should take the Group ETR to somewhere around the mid-20s, and you should see that in the first quarter. That's from the assumption we pay no BEAT, as it's known. We have a degree of confidence that should be the case, but it's quite an onerous calculation for those who are familiar with this, and actually will require some technology build to fully calculate. But given everything we see at the moment, it doesn't appear that we should suffer that, but it's not without risk. Until you've done the calculation, you never know for sure.

Trading started well. We reported, as at this time last week, that income [year on year] was ahead on a year to date basis, both in sterling and in dollars. Obviously, there's quite a material change in FX rates,

year on year, so neutralising for FX rates, looking at it on a dollar-basis, we're also ahead, but nonetheless ahead in sterling as well.

The only other one I'd point out, we gave a broad split of profitability, with around 40% in US dollars. The point of that is that's going to be more or less in sterling, depending on prevailing foreign exchange rates. We are quite sensitive to that, as a profitability matter, and at the moment, year on year, obviously the pound is stronger than it was. We like a weak pound. We'll see what that is over this year, next year and beyond.

Andrew Coombs, Citi

I was looking in the appendix, at your pro-forma accounts post ring-fencing. If I look at BBUKPLC, the loans and advances and the deposits you provide on slide 56, it looks like your LDR for that ring-fenced entity is already at 101%.

Tushar Morzaria

As part of filings in the US, we also filed something called the Reg S-X, a new find for those of you who aren't familiar with US funding requirements.

It's to do with our debt issuance requirement on a pro-forma basis, so it's not the real numbers, it is an estimated pro-forma view of what our legal entities for our UK bank and our international bank will look like. I think, Andy, that's probably what you're referring to in the slides.

Andrew Coombs

There were a number of us who thought your LDR was very low, and therefore there was room to ramp that up, potentially grow a bit more. But if your actual UK ring-fenced entity is already 100% LDR, where do you feel comfortable going to? What does it mean for mortgage volumes in the UK and so forth?

Tushar Morzaria

This is quite a technical disclosure. The divisional view and the legal entity view, unfortunately, will have some technical differences that'll persist permanently. It's probably worth, for those who don't really get into this, maybe just spending a bit of time with Investor Relations and they can take you through this, because it will be there forever.

We have differences; the service company margin is a consolidation adjustment, not as a divisional matter, but as a legal entity matter, for tax transfer pricing purposes you will see profitability move from the two trading entities into the service company.

You also have some complexities around hedge accounting, and Investor Relations can take you through it. And there are a few other technical consolidation adjustments, so that can sometimes be a little bit tricky to work through, particularly on the balance sheet, that's where we get cash flow hedges and all sorts of interesting stuff going on there.

That's just on the statutory view of these, and it is a pro-forma view so don't take it as absolute gospel, but to take the gist of your question 'what sort of loan to deposit ratio would you expect us to run for the UK business?', a couple of large banks run a higher LDR than we do, and there are a couple of us towards the lower end. HSBC are quite low, I think.

We've always wanted to operate around about 90%, but we've been a bit lower than that historically, sometimes a bit over. Obviously, with the transfer of the ESHLA assets back in, that does make a difference, but we don't really think of them as typical UK retail assets, those are just the remnants of

Non-Core. That's the right place to have them, given the sterling features. I think around about 90% is an area we feel comfortable with.

We do talk internally, quite a lot, as to whether we should go closer to 100% or even above. I don't think you'll see us do that in the near term. That's not something that we'd anticipate doing. Somewhere around the 90s feels about right to us.

Michael Helsby, Bank of America Merrill Lynch

When I think about your RoTE improvement targets, I think about it in my head as breaking into three buckets. The first bucket I call the 'falling off a log' bucket, i.e. you're going to do it. The second bucket is IB growth, and then the third bucket is retail banking, US growth, and other revenue growth. So within the 'falling off a log' category, I'll put in the cost reduction that you've given, the Non-Core run-off, funding/liability management benefits, and now, obviously, we can add the US tax to that piece as well.

What is the RoTE improvement that you can get from that low-hanging fruit bucket? What is the base RoTE that you're thinking of that you're going to deliver today?

The second piece is, within that, what Non-Core revenue drag should we think about for 2020? It sounds like there's not much there anymore. Of that 60 basis point funding benefit that you hung out there the other day, how much have you included in your RoTE expectations? Finally, if everything does go to plan, what type of earnings power do you think this is going to deliver when we put all of the buckets together?

Tushar Morzaria

In the 'falling off a log' bucket, as you call it, or stuff that is not really predicated on underlying business performance, there are costs which are more controllable and it's actually a meaningful component. We haven't given a number, but maybe if I help you out with some of the building blocks I suspect you'll get to a reasonably good range.

On costs, you can make your own assumptions. If you take the midpoint of the range we quoted [for 2019], that's a £500 million [cost reduction from 2017] pre-tax. Putting in the new tax rate [guidance] and you get to £300 to £400 million post-tax. So you're almost getting to one [percentage] point of RoTE, depending on what tangible book assumption you take.

On the Non-Core effect, the easiest way to look at it is probably on the negative revenue side. You can see that we haven't actually called it out in Q4, which gives you a sense that it is running down quite quickly. By 2020, I think it will be around zero. There will be virtually nothing there. There may be small amounts, but nothing you'd expect us to talk about and ought not to be an excuse for not generating the right level of profitability. But even in 2018, I think you'll see a relatively sharp run-off of the negative income that we experienced last year.

We [previously] guided to a Non-Core loss before tax of around £1 billion, roughly split half and half across last year. So again, if you want to literally take the midpoint, tax effect it, you're probably getting, again, somewhere up to one [percentage] point of RoTE, depending on the assumptions you want to use.

On funding, of course I shouldn't tell you what's in our models because I'm not going to tell you what we may or may not retire, or securities we may wish to redeem. But many of you know the US dollar retail preference shares that are outstanding, many of you know what the coupon is, and if that was to disappear, that's around £170 million, depending on the FX rate. So, on a post-tax basis, you're getting around a 40 basis points of RoTE there. But that is just on that security alone, let alone any others.

Tax, of course, is a relatively straightforward calculation. You'll have your own views of pre-tax profitability in your own models, and if you want to take 'mid-20s' as 25%, that's the rate most people will probably go towards, you'll get your own sense of what that is. But that could be quite a powerful number as well, depending on your own views of pre-tax profitability and whichever year you want to apply that to.

You add all of that up and it starts moving the needle quite sharply, which is why we have quite a high degree of confidence we should be able to hit our returns target. So even though, in many ways, we believe we can get there just by driving business profitability, the opposite of 'falling off a log' stuff, things that we actually have to make happen, these things obviously act as nice tailwinds for us.

The 60 basis points of funding, just to be clear on this, don't assume that all of a sudden, our weighted average cost of funding is going to be 60 basis points lower. That's not what it means. That would obviously be an enormous positive to us, and if you were to get that by clicking your fingers, that's a huge number. More to the point, with spreads as they are today, we're in a big refinancing process at the moment, particularly from MREL compliance and putting debt into the right vehicles from a legal entity construction. It looks, at the moment, that we are getting pick up in funding spreads of about 60 basis points on average. You've got AT1s, you've got Tier 2s, you've got Senior securities and you've got some redemptions in there as well. That's what it feels like at the moment. So we're not going to refinance £150 billion of wholesale on one day and get 60 basis points. Don't think of it like that; think of it as something that will roll in if spreads stay at attractive levels. At the moment, it's a tailwind, so more expensive debt is rolling off. Not just the dollar preference shares that people have in their mind, but more generally it's cheaper for us to re-finance.

For example, we did a Euro HoldCo issuance, and that was, I think, at record tight spreads for Barclays, as far as we could work out. So this is real stuff now, but that in itself isn't going to move the needle. But if you do all of your financing at these attractive levels, it's another bit of a tailwind.

You didn't ask so much about what would remain from IB or retail, but you've got to take a view on the macro environment, of course. You could have consumer recessions and whatever else, but all things being equal, you can see the growth in US cards is quite visible, just in the growth in assets and the underlying income. Costs have gone up at the same time, to keep us at roughly neutral jaws, and that's because of the heavy investment spend. The J curve for that business, particularly around the American Airlines deal, which is quite a significant deal for us, but you've also got JetBlue in there, and now we've got Uber as well. I think you'll begin to see the rolling-off of that J curve, or rather the profitability, once you're through the J curve period. As you go further into 2018, and certainly into 2019, as you've seen in prior years, when the full effect of the J curve rolls off, you can see how profitable things can become. Macro-economy and internals and everything notwithstanding, that, again, looks quite visible to us as well.

We guided to a greater than 9% RoTE, and there may be a question about why didn't we re-strike targets as some others may have done. We've always said a 'greater than' 9% RoTE target for 2019. And to the extent we have tailwinds, there are also headwinds out there. Foreign exchange rates are a big deal for us; if you move 10 percentage points in terms of foreign exchange rates on 40% of Group profits, that's meaningful.

The interest rate environment will be what it will be; exchange rates will be what they'll be; the macro environment will be what it'll be. In some ways, these are swings and roundabouts, we don't want to get too carried away by pretending we can model this stuff with complete precision. But in the round, with all of these things, with the tailwinds and headwinds, our degree of confidence in meeting the target is increasing.

Robin Down, HSBC

I was wondering if you could give us a little bit more colour around the structural hedge. In my head, I think you said in the past that average duration is five years, investing out to ten years. I think you call it a caterpillar. I think, ball-park, the structural hedge is around £110bn with an average yield at 1%, but I'm trying to reconcile this with the sensitivity you've got, which shows, for a 100 basis point parallel shift, looking out to year two, year three, you've got a £300m uplift coming through, which I imagine is mostly from the structural hedge?

I'm just trying to think about what you've got in terms of yields of things rolling off the book over the next year. I think we've probably all seen the swap rates going up in recent weeks, so I'm trying to think about how that will actually work?

Tushar Morzaria

I won't precisely comment on your estimate, shall we say, of yields and quantum, but there's probably enough out there that you're going to get fairly close, and I know other banks are being quite transparent; RBS put out a slide that was quite transparent, so you'll be able to work things out.

There are two types of hedges, the equity hedge and the product hedge. The equity hedge we've targeted, in sterling, a five-year average duration. So you're right, we express it as a strip of swaps that has an average duration of five years for that strip of ten-year swaps, and then it rolls and re-finances as you progress forward in time. The product hedges are a slightly shorter duration.

And then you've got two other effects which are judgements at the end of the day. The first effect is what is going to happen to the curve itself, both at the short end and the long end, and of course, a 100 basis parallel shift probably won't happen, as you all know. Then you've got the other effect, which is how much of those balances are rate-sensitive, particularly if the short end moves back up. How much of those balances are basically sitting in accounts that have been extremely profitable for us because we don't pay interest on them, but start seeking an interest-earning account?

Those are assumptions, so that slide we put out is giving you a sense that if you take the high pass-through rate and a low pass-through rate, and an assumption of how much of those rate-sensitive balances stay, within quite conservative assumptions, you can see how much net interest income comes through over time.

These are quite interesting things for banks to decide upon because of what will happen; as the rates back up, the enterprise value – if you want to get into present-value space – will actually go lower and lower. You'll see it in the cash flow hedge reserve. It will put downward pressure on the cash flow hedge reserve, which is telling you that over the full life of those hedges, on a present-value basis, you're actually depressing the enterprise value of the company, expressed as tangible book.

The shape of it is quite interesting because you'll over-earn net interest income by keeping a long-duration hedge, and you'll give it all back if the forwards actually happen to be what ultimately transpires in the future. So it's quite an interesting decision for bank management, what to do in that situation. Do you just ignore it and keep going as a mechanical process, or do you decide to vary the duration?

I'm sure all banks are having that sort of conversation themselves and it's the right thing to do. That slide is just an illustrative point to say that the bulk of the effect is in the outer years, from an NII perspective. It's really the swaps rolling into higher re-financing rates, and that will come in over time. These are big numbers; you quoted around £100bn in your estimates. As you go further along, years four and five, the numbers just continue to grow, and at some point they'll roll back over.

Robin Down

Part of the reason I asked the question is that if you've invested in ten-year swaps on the equity hedge, then even with a 100 basis point uplift in the yield curve, I'd still expect, near-term, that the hedges that are rolling off would be generating a higher yield than the stuff you're putting on.

Tushar Morzaria

Yes, you'd have to go back and look at what ten-year swap rates were like in 2008, I imagine they'd be higher.

Robin Down

Over 2%, yes.

Tushar Morzaria

So you're right. That's why the bigger effect is in years two and three. From what I remember, the curve collapsed quite quickly and stayed low for a long period of time, and it's a low swap-rate environment, as they start rolling off and you're now swapping into higher rates, that's where the bigger effect comes in. It's a simplistic assumption having a perfect ten-year strip of swaps; it's never quite that perfect. We're targeting an average duration, so this will be a simplistic model.

Robert Sage, Macquarie

I was interested in the increase in the arrears numbers on the unsecured personal book, which seemed to rise for both 30-days and 90-days, and there isn't really any evidence at all in terms of the loan impairment charge coming through at a higher level for any of the quarters in 2017.

So I was wondering if you could give a few thoughts around that, where you think those rates could go in the course of the coming year, and whether you think that's going to have some traction in terms of higher impairment charge at some stage?

Tushar Morzaria

Are you comparing unsecured credit card lending versus unsecured personal lending, or just generally unsecured personal lending?

Robert Sage

Just unsecured personal lending.

Tushar Morzaria

What's interesting there is that, at the moment, the cards arrears are better than personal lending, which isn't necessarily that intuitive, and that's surprising when you really get into the business. What you tend to find in the cards business, at least for our portfolio, is that there are a lot of seasoned borrowers, and these are folks that really do revolve with credit, pay interest but they're very good credit, and they're used to it. They're very comfortable revolving, borrowing when they need to and paying it off.

On personal lending, these tend to be much longer-dated loans and fixed-rate loans. Typically, credit card revolvers are people that are very comfortable dipping in and out of credit; personal borrows tend to be less comfortable, they're doing it for a particular reason. Away from all of that, it's just the nature

of the business. The personal lending was quite small, particularly relative to the credit card book, so it's not going to be a big deal for us.

But do I really see any stress in consumer credit, either from our card business or personal lending, or mortgages for that matter? The short answer to that is we don't really. It does continue to be quite benign, and you see that through our impairment charges. There's nothing we can see one week further on from last week. It all still feels very well-behaved. We've been saying this for a couple of years now, but we're all a bit surprised at how well-behaved arrears rates are in the UK, but it still feels like that.

So we're quite cautious; delinquencies will tick up and down a little bit, but nothing that I would draw your attention to in terms of where this may go from an impairment perspective.

Chris Cant, Autonomous

First, just following up on your previous comments about the bridge to your RoTE target. You're flagging FX as a headwind to RoTE. I can understand why FX would be a headwind to your absolute earnings power, but not really the RoTE, because obviously the denominator would be lower as well, in sterling terms. So could you give an indication of the RoTE differential today, between your US business and the rest of the Group? Presumably, the former must be meaningfully higher for you to be flagging FX as a headwind to the ratio, because presumably it is a mix effect you're talking about?

The second one was on leverage, your slide 46, where you've given us a picture of how your systemic reference points (SRP) will phase in, heading into 2019, under the current UK regime, and then an indicative view on what might happen under the CRR regime down the line.

If I just think about your leverage capital stack today, and I don't worry at this point about the CRR regime, you're looking at a 3.975% total requirement, within that about 3.8% of SRP, and that will apply in year two of this stress test. In the last stress test, adjusting for BAGL, you saw about a 150bps leverage draw-down, peak to trough, so that would indicate you would need to be running high 4.9s percent to 5-plus percent on a UK leverage basis, and that's before we worry about the potential for the G-SIB buffer within that stack to go up over time.

So I guess I'm just trying to think about how I translate your slide – you give us the capital stack on a risk-weighted basis – into the leverage stack? How much of a stress buffer, over that SRP, do you think you need on a leverage basis? You talk about 4.5% to 5% on a risk-weighted basis; how much do you think you need on a leverage basis, please? And where do you think that puts your longer-term UK leverage requirement, if the systemic buffer does go up, as the CRR proposals would indicate?

Tushar Morzaria

The capital that we hold against our US businesses is obviously in dollars as well, so it's less of a question about returns but a comment around absolute earnings. I've said this in the past but it's always worth reminding people, generally speaking, as sterling strengthens, our tangible book will reduce. That's the point behind the question, that the capital that we hold in dollars will be worth less in sterling.

The other thing is, as rates back up, our tangible book will reduce as well, through the way the cash flow hedge reserve works, and that's the point of the earlier question I mentioned about the enterprise value in a rate cut scenario, given the hedges that we're running.

But when you're thinking about absolute earnings generation, it's just a straight translation in terms of earnings per share, it's the translation headwind, and it will be what it will be. It's one of those things that I'm not really making a forecast on. When we're talking about specific cost guidance and things like

that, when we get nearer to those targets either being achieved or unachieved, we'll obviously update them for those prevailing FX rates, as we've done in the past, but we're still some way away from that.

Leverage is something that as a firm we are acutely sensitive to. As many of you will know, in 2013, we had to do a rights issue on the back of a leverage constraint, and when I first joined the company, soon after that, managing the leverage ratio of the company to the appropriate level was an intense area of focus, probably for at least the first 18 months of my stint here. So scars run deep here, in terms of leverage, so we look at it incredibly closely to make sure that we don't ever end up in anything like that situation ever again. And we'll always run the company to ensure that leverage is a back-stop not a front-stop. We'd like to have the capital position of the company geared such that risk-weighted assets is our front-stop measure and leverage is a back-stop.

The point of your question, though, is do we need to increase our leverage ratio, given where UK leverage stack requirements are going? I've always felt that somewhere around 5% – I'm going to be deliberately a bit vague here because there are so many moving parts, rather than giving a precise basis point answer here – I think will feel right.

Leverage generally will increase, as it has been. CET1 has increased as well. Of course, in our stress drawdowns, the one very, very important component is conduct. It's an interesting situation because, as a regulator in that area, you'd expect folks to have an outsized outcome as a drawdown for stress testing. And it's rare that you tend to actually experience that outsized outcome, and certainly rare that you experience that outsized outcome in every component of conduct.

That really would be quite unfortunate, but makes sense as a stress-testing matter, so I do think that is one of the most important things as we work through our remaining cases, and there isn't that much left but there is one very big one left, RMBS. If that's settled and dealt with within our stress capital draw, that starts making a big difference to how our stress drawdowns will look, and therefore how we need to position our stack, both as a leverage matter but also a CET1 matter.

And I will say that although we've seemed tight on leverage in Bank of England stress tests for the last couple of years, it has acted more as a back-stop. We haven't had to resubmit any plans on the back of any leverage concerns. It's something we're very vigilant on, it's something we are intensely focused on, but I think around 5% [is appropriate]. And as we work through our conduct issues – that list is getting quite short – particularly as it affects leverage stress capital, I think the capacity will recalibrate to give us an appropriate buffer.

Chris Cant

I appreciate that conduct should normalise over time. Obviously it's been flat in aggregate over the last three stress tests, at £30 billion across the banks in years one and two. If I think about your actual leverage print in last year's test, your trough leverage exposure measure was about £1.1 trillion. Even if I assume that you have a good chunk of that £30 billion allocated to Barclays, a couple of billion improvement in your stress conduct would be less than 20 bps on that leverage exposure at the trough.

So if you're doing a 1.5% draw-down adjusted for BAGL, and we knock off 20 bps, that would still put you north of 5%, even allowing for normalisation in conduct. And your year-end ratio, on a UK [average] basis, was 4.9%, and that was coinciding with a 13.3% CET1 ratio, and you're telling the market that you need 13% on risk-based capital stack.

It feels like if we roll forward the test, even giving credit for conduct, you would probably be, as you say, tight on your systemic reference point this year, if not failing again, versus that measure, probably by a slightly bigger margin. It just feels like leverage, without thinking forward to CRR, could already be the binding constraint on capital. So what can you do to shift things so that risk-based capital is actually the primary constraint?

Tushar Morzaria

I take the spirit of your question. Again, there are so many moving parts, it's one of the things that we have plenty of levers to manage if we felt we were running tight to leverage. Obviously, the leverage exposure itself we can manage, in ways that we have done in the past. I won't go too much into that, but there are techniques we can use there to manage our leverage exposure if we needed to. We wouldn't do this and it's certainly not our assumption to, but if we needed to and of course if we were very tight. We also have AT1 issuance that can be helpful. We're running a very healthy liquidity buffer of about 154%, so there are opportunities to reduce that if we needed to. Even the mix of that liquidity buffer we could play around with.

So there are levers out there. We were, as you pointed out, quite tight to the systemic reference point as you know for leverage in the last two stress tests, but we're still quite confident that with all of those levers available to us, as well as we think the changing nature of the draw itself as well, it should position us in the right place. And I continue to think somewhere around 13% for CET1 and around 5% for leverage, without being too precise, is around the right ratio for the company to be running at, from everything I can see on the horizon.

Chris Cant

Is there enough in those levers to offset the planned re-leveraging of the investment bank? Because obviously you're planning to increase your leverage exposure and decrease your risk density, which would tend to make leverage more of a binding constraint if you're just adding leverage balance sheet with no increase in RWAs. There's enough in those other levers, you think, to offset that?

Tushar Morzaria

Yes, for sure. £50bn on a £1.1 trillion or so leverage exposure is stuff that we can comfortably manage.

David Lock, Deutsche Bank

I've got two things, the first one on the CIB and Barclays International. I just wondered if you could give us any colour on what the drag on RoTE of the Corporate business is within CIB? You talked about quarter of that business which is below cost of equity, but what's the drag on the International business at the moment, from the RoTE perspective, and how should we think about how that evolves over the next two to three years?

The second question is on pass-through rates to deposits. I know you've given this disclosure, very helpfully, about high rate of pass-through and low rate of pass-through. It's been three and a bit months since the first rate rise, I just wondered if you could share your thoughts on what has been experienced so far? I know it's the first rate rise, I know we should never extrapolate beyond this, but it'd be helpful to hear what your experience has been of customer behaviour since then.

Tushar Morzaria

The corporate business really sits on two lines, it's a lending business and a transaction banking business. Transaction banking is a business we love and would like to do more and more of, as it is very capital light and extremely accretive and very annuity-like in nature.

The corporate lending book has what you may expect; some very good business, some business that is acceptable and some business that is unacceptable. The unacceptable business is the area that we're most focused on. These are longstanding corporate relationships and conversations with these clients can be quite awkward as we have to have a real discussion about pricing.

What I have been quite surprised about, maybe at the margin, is how clients have reacted to understanding the profitability issues that we would face in continuing to extend that credit and looking for ways to leave or accept a different form of pricing or adding products and services.

It won't always be the case, but it seems better than I would have expected. I thought we'd be rotating much more out of there quickly than we needed to and thought the best thing for us would be to leave the credit there and just return better.

So I won't throw a number out there, which I know was the gist of your question, but it's unfortunately a larger component of that corporate loan book than we would like it to be. Jes has said in the past, the risk weighted asset component and you could probably, from our disclosures, work out what the corporate lending book risk weighted assets are. So it's a large component and this is why we're targeting that to go after.

But the real success for us would actually be if we could retain the corporate book with better pricing and, in some cases, more than I would have expected, that has been the case. Otherwise we'll redeploy to better areas.

David Lock

I guess just to come at it from another way, your Investment Bank is a sub cost of equity business and has been a focus of the market for a number of years. But do you feel that actually if you were to take out some of these bad areas, the underlying businesses is actually much better?

Tushar Morzaria

I think a lot of restructuring that business will face is the stock versus flow. The flow business, the new business is very accretive. You are carrying stock that unfortunately you're saddled with that isn't usually accretive and it's quite dilutive. And the corporate business is no different in some ways. New corporate lending is great. The old stuff that we have not done well in the past are the things that we're dealing with.

Some of that we dealt with through Non-Core but it's still running a fairly sizeable balance sheet. As it cycles through it will improve. But yes, it's a flow versus stock issue principally in the corporate business as well as in the IB business.

We passed on in the low-60% or so of the first base rate rise and it is a case to make that we passed on too much because our liability balances have increased, even though the Sunday newspapers ran that "Save our Savers" campaign, there was a lot of chatter about it. But ultimately I think probably most banks or liability balances have increased rather than disappeared.

We haven't had a tightening cycle for some time so it's quite hard to look at historical behavioural assumptions. Our sense is that if we get into somewhat regular rate rises, I think the ability to pass on diminishing amounts will become increasingly likely.

So yes, I think we will have to see facts and circumstances at the time. We always felt that in the earlier rate rises that the societal commentary and societal effects of this will also be driving what we would need to do. I think as that diminishes away and people get used to it, I suspect we will have a bit more freedom.

But we were quite cautious, I think most of the big UK lenders were cautious for the first rate rise, maybe that's why we didn't see any difference in liability balances. For example, a big rotation out of current accounts into savings accounts, we haven't really seen any of that yet. It's a judgement call.

At the moment, it's quite a benign outcome relative to what it could have been.

Corinne Cunningham, Autonomous

After your results, Moody's put your Holding Company rating on negative watch. If you have a look through what they're saying, there are quite a few areas where they could decide to take a less favourable view than they have taken so far. Should we read that as it's almost a given, there is not much you can do to avoid at least a single notch downgrade on the Holding Company?

Tushar Morzaria

It's hard for me to answer for them, but we've been on negative watch for some time and now they're reviewing the rating. It would be a little bit surprising if they decide to review the rating and leave everything where it is but we will find out in the near term.

If they do bring us down a single notch, I guess that will bring us back in line. Moody's is, I think, one notch higher than S&P on a post ring-fencing basis, but if anything they'll just fall back into where the other ratings agencies are.

I think the other thing is that they'll probably tell us soon; I don't think when they say 'you're on review' it's a six-month thing. It's a near term thing, probably weeks rather than months is my guess and we'll find out.

Corinne Cunningham

I suppose the reason to focus on it is because, at the Holding Company level, it would put you a notch below the other agencies and it would take some of your junior debt into non-investment grade. Given the Holding Company is where you intend to issue your MREL, is there a pricing impact or a real impact with your investor community?

Tushar Morzaria

I should probably be asking Kathryn and Miray to answer that one. They're going to be much more familiar with our pricing and how that would work. But we wouldn't be the only bank that would have that situation and those other banks that have got sub investment grade ratings on their HoldCo, including UK banks, don't seem to have a problem issuing out of their holding company. Demand appears to be quite reasonable is the way I see it.

Kathryn, do you want to add anything to that?

Kathryn McLeland, Group Treasurer

We have been on negative outlook for some time and been watching market dynamics closely. We have considered index eligibility, and its relationship with market demand. As Tushar said, we still expect market demand even were a downgrade to happen. We are confident of investor appetite should the HoldCo rating drop one notch.

Ian Gordon, Investec

Firstly, your strong start to the year, clearly you're not alone and we've had various nuggets of colour from your peers. I'm sure you don't want to talk about your own specific product performance, but can you share any views as to where you've seen the scale of opportunity significantly expand in the first couple of months?

And then secondly, can you just remind me of the scale and phasing of your investment in the Republic of Ireland as your Brexit contingency plan? And in connection with that, any views on the latest attack on Ulster's sovereignty by the EU?

Basically this is a tail risk, but it was over 12 months ago that it was pointed out by others that if the Republic of Ireland was serious about maintaining its trading relationships with Ulster, the best thing would be for it to leave the EU which might have implications for your contingency plan.

Tushar Morzaria

On the first question, yes, I guess the gist of your question was more around trading performance. I think we had really low levels of volatility, so generally not good for the dealers in 2017, and obviously we had some big spikes in January/February of this year, which are almost that nice combination where there's enough stuff that people have to trade so it's good for dealers, but not too much so as to put capital markets on the side-lines.

So we had that nice combination where probably both businesses had opportunities out there. There was definitely a bit of a lull in capital markets while those extreme spikes were going on, but deals were being delayed rather than taken off.

It was probably across all the asset classes in some ways. I don't think it was particular to any one asset class. There were opportunities and problems everywhere, being on the wrong side of these deals can be very awkward. But the dealers tend to do well in volatile markets given the quick velocity of their inventory.

In terms of the Republic of Ireland and risks of them leaving the EU, we don't see that as a likely outcome for planning purposes, but we have considered that there are risks, nothing is free of risk. The alternative for us would be Germany, probably the most logical place for us to go, where of course our German cards business is, where we have real offices, and real substantial businesses in there.

We don't have any plans to do that but that would probably be the fall back side from that tail risk. At the moment we believe that Ireland will remain in the EU and we'll have to monitor it.

Ian Gordon

And just on the scale and phasing, are there any circumstances under which if the status quo prevails, you would abandon the project or do you regard yourself as committed to have that facility?

Tushar Morzaria

I think we're at the point where it's very hard to not do this now. The lead time required, unless we have real certainty that there's some transition framework that doesn't mean that we have to be ready for March 2019, is such that I think we're encroaching on that already.

So we're probably pretty much at the point of no return. You can never say never. Tomorrow morning if some deal is struck you may think again. The longer it takes, it's very unlikely that we'd want to go back, to be honest. It's a bit of a momentum thing. Once you begin it's actually better just to finish it than actually stop it and reverse. It's more expensive to go back and I think we're getting to that point.

Raul Sinha, JP Morgan

If you look at the balance sheet credit quality metrics, on a year on year basis, there seems to be quite a big shift or reclassification of the balances in credit cards, in unsecured and other retail lending, from what was last year satisfactory grade to a big chunk in strong grade, but also a significant increase in the higher risk category which seems to have gone from £1.8bn to almost £5bn.

Is there something technical or is there something else we should be reading into that, because it seems like quite a high increase in high risk categories?

And then the second broader point is on UK retail growth, in the second half of the year we have definitely seen a pick-up in lending. Can you give us some indication of what the forward looking view of the management businesses are on growth in the mortgage market? Where is it coming from and are you expecting to increase your share?

Tushar Morzaria

The credit metrics are technical, and of course IFRS 9 will probably give you a whole bunch of new disclosures that you're going to want to spend some time studying, comparing and contrasting, and you'll be getting our transition documents before the end of the first quarter, so it will give you plenty of time to do that.

But there is nothing I would call out in there. As I said, both in US and in the UK, it does feel very benign and it would not appear, as far as we can see, that you'd expect impairment charges to start growing on the back of any forward indicated deterioration of credit.

There are some technical reclassifications, but nothing that tells you that we're worried about credit. And as I say, IFRS 9, we'll probably spend quite a bit of time talking about it to get used to the kind of disclosures that it will give you.

In some ways it goes to the point of your second question; we've been quite cautious in the UK bank and stuck to the mortgage business that we know well, which tends to be relatively lower loan to value and re-mortgaging type space, rather than first time buyers space that we're not in. A lot of it is through the broker channels. The linkages with the broker channels are quite strong so we do benefit from having a lot of flows from there and the technology linkages that we have with them is quite helpful.

I think what you will see us do is just stick to what we've always done, stick to the parts of the mortgage business that we know and do well, and we'll grow alongside that. If you look at our stock versus flow, it's about the same in the sense that our market share on flow is about the same as where our overall stock is. We're not growing in our stock of market share and that's not our intention either.

We're trying to be cautious in balancing compression with volume and trying to optimise that as much as we can. We want to make more profits but not by sacrificing too much. So far, so good. You've seen our NIM hold up reasonably well, even though asset margins are under compression and mortgage balances have been growing about one to two billion a quarter in the second half of the year. We'll see what it will be like for the rest of the year.

Andrew Coombs

Just a quick follow up on the FX point on both tangible equity and also RWAs. You have given us very good guidance in terms of the P&L. Can you just remind us how the tangible equity and RWAs are split dollar versus sterling versus others, or at least the sensitivity that we should be baking in?

Tushar Morzaria

That's a tricky one. I won't give you the precise numbers but in terms of hedging, it is a good question. We've actually focused hedging for FX rates on our capital ratio and not our tangible book. So we're far more sensitive to tangible book moves to, for example, dollar/sterling, euro/sterling and other currencies, than we are to our CET1 ratio.

That's something that we've been continuing to debate and Kathryn and I talk about this periodically as well; at what point do we rotate away from hedging CET1 to hedging tangible book? We're not there yet and possibly we won't be there for a little while yet. And we'll probably tell you guys when we rotate that hedge around because we would want to grow tangible book over time and one way of making that more predictable is through hedging it. But that's not what we're doing at the moment.

We haven't given a sensitivity, and I know some other folks have so I won't throw out a sensitivity, apart from a directional comment. And essentially you can't hedge both risk weighted assets and tangible book, obviously there's a multiplier effect. So we're quite open on that.

Andrew Coombs

Just coming back to the RoTE point as well, you are saying 40% of your profits are dollar denominated, so we can try and back into the allocated equity. Is it broadly the same amount?

Tushar Morzaria

I won't quote a number, but it would be reasonably in balance. I don't want to quote a specific number, but it's not unreasonable to think there's some relationship there. And of course some of these things, you can go to our Y9C filings in the US, and that's an entirely dollar based business and a lot of our dollar revenues come from there.

But the bit that's a bit harder for you guys to triangulate into is in our sales and trading business. There is little business to be done in Sterling, it's really Euros and Dollars, but not all of that business happens to be done in the United States. So it's a little bit harder for you to see what the capital of the branch and BBPLC will be, but it's not unreasonable with regards to seeing some relationship between earnings and the capital base, if that's helpful.

Claire Kane, Credit Suisse

Just to follow up with you on the UK retail comments, I think on the presentation you just said that you expected 50% of profit growth to come from the Personal business.

I guess we have some quite clear targets for growth in the US card business, but in the UK, there is not much optimism around the top line growth. You've obviously given quite a negative outlook for margins, so I just wondered whether you could talk to some other lines of the P&L? What is the timeframe on that 50% contribution?

Tushar Morzaria

You're right in the sense that I expect the bulk of that to come from our US business. That will grow. The UK business wasn't really in our models. So not paying too much attention to base rate rises and stuff like that, with all things being equal, we expect to see some growth in our mortgage book, but you are seeing probably something like an 18 to 24 month J-curve typically. So towards the second half of next year, if we're growing our mortgage book now, you'll start seeing that come through in profitability.

I don't think you'll see UK cards grow too much. We are a bit cautious on the UK even though it continues to surprise on the benign credit side. But on the mortgage business and operational expenses, of course we're going to be driving more and more operational efficiencies, and real top line growth and mainly focus on the US.

Richard Smith, KBW

I wonder if I could just check, you stuck with your 13% CET1 ratio target level and I wanted to check if you'd heard from the PRA following last year's stress test on the update to your PRA buffer?

Tushar Morzaria

Yes, and there's probably not much more I can say about that apart from that we reconfirmed about 13%. Obviously, there's a point to your question, which is can these things change in the future? You

can never say never, so we tried to be as transparent as we can with our stack; what our Pillar 2a is, what management buffer we're holding which obviously takes into account any PRA buffers, what our GSIB is, etc.

So that's everything that we know today. If that changes in whatever direction, we'll obviously let you guys know and adapt accordingly. But everything I can see on the horizon at the moment, from what I can tell, that 13% should be about right.

Rob Noble, RBC

Did you take any additional TFS funds in the January/February window, at the end of that scheme? Do you think that there is going to be a step change in the market or if not, how quickly will it change the market and through what - deposits, mortgage price, corporate pricing? What do you think will happen?

Tushar Morzaria

I think the scheme closed this week so anybody that drew in February, I don't think that's made public until the second quarter, so I probably shouldn't be commenting on that. I think it might even be June. On the assumption that you're not going to find out until the second quarter, I won't tell you. But we haven't been a big utiliser of the TFS and we haven't been too proactive in that space.

In terms of mortgage margins though, and what it does, I think it's going to be interesting. Various commentators have said that some of the asset margin pressure is driven by the availability of TFS and a lot of people draw on it quite substantially. So I think there is some truth to that. I do think there will be some normalisation perhaps, or releasing of pressure on asset margins, as the TFS scheme winds to an end.

What would be quite interesting is to see what that does to liability pricing, whether liability pricing starts getting bigger or not, but that's something we will watch closely. But I think there will be some relief for asset margins.

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