

Barclays PLC Q4 2017 Results

22 February 2018

Results call Q&A transcript (amended in places to improve readability only)**Michael Helsby, Bank of America Merrill Lynch**

When you set the RoTE target, you weren't banking on US tax cuts, so I was wondering why you didn't just nudge those up today, or whether that just means you're a lot more comfortable of hitting the targets?

Secondly, I was wondering if you could give us a little bit more colour on the performance in Q1 and, strategically, whether the tax reduction in the US actually makes you change the way you think about the way the investment bank is shaped, whether that pushes more to the US in terms of balance sheet? Thank you.

Tushar Morzaria, Group Finance Director

Thanks, Michael. You're right, we didn't have the tax rate reductions in our models when we came out with our RoTE targets, so I'd say it's more the latter, it just increases our confidence. We felt confident of getting there without the tax cut; the tax cut is just a tailwind that will give us increased confidence. Remember, we did say greater than 9%.

There are going to be things that go against us, and things that go for us. We had a view on where the macro economy will be, and it will be what it will be. FX rates are currently a headwind, but that may be different by the time we get to 2019. We don't know. The rate environment feels a bit better than we had projected, so that could be a bit of a tailwind. The tax effects look like they're definitely going to be a tailwind.

So I think there are pluses and minuses there, and we're just focused on the things that we can absolutely control, and that's growing our top line, strict cost control and allocating capital properly. By doing that, we feel pretty good about getting to a greater than 9% RoTE in 2019. And we're a bit more confident because of some of these effects.

I would just remind you not to ignore the dollar tax rate we specifically called out. About 40% of our profits and half our BI income is dollar-denominated, so it'll be what it'll be depending on those tax rates.

Jes Staley, Group Chief Executive Officer

Across the overall business, we've already embraced this idea of being a diversified Consumer Wholesale and Transatlantic Bank, and clearly the tax move in the US will have a pretty significant impact on us, both in the CIB but also in the US Cards business where [underlying] net receivables were up 12% from last year. The American airlines partnerships are rolling out extremely well. We started the

American Airlines partnership in the first quarter of 2017, adding 30,000 new card consumers in the first quarter; that was 120,000 in the fourth quarter.

People know that in the credit card industry there is a pretty strong J-curve to the profitability of that business, and it's been only 18 to 24 months, so we're going to have to see how that plays out. The tax impacts will benefit that as well.

We're a British bank, the UK is our home. There won't be any strategic move, but do you always want to optimise your tax policy by where a business is booked sometimes? For sure.

Tom Rayner, Exane BNP Paribas

Could you comment a bit more on how you're performing relative to competitors in terms of market share in the Investment Bank in Q1 so far? I think Q1 last year, relative to others, was actually quite a weak quarter for Barclays, certainly in FICC and I think in equities as well. So I just wondered if you could talk a little bit more relative, rather than absolute versus your own performance.

Jes Staley

The only thing I'd say about relative performance, we don't have the first quarter yet, it's way too early, but I will talk about the fourth quarter. In the fourth quarter, everyone suffered from low volatility. On a dollar basis, our markets revenues were down 10%; I think the average in the United States banks was down 21%. But I would say, in the fourth quarter, we gained market share.

Tom Rayner

But the comments were about year to date.

Tushar Morzaria

I think from the six, seven weeks into the year, I don't know what other banks are doing, so it's a bit too early to start extrapolating. We felt good about the market share gains we felt we got back in the fourth quarter. It's been a decent start, we'll see how it goes. It's too early to start getting into specifics.

Tom Rayner

On ring-fencing, the launch is close. Are there any issues – the one in my mind is possible leverage requirements – that affect your strategic thinking within that business? Some of your competitors are pushing very hard now on UK mortgages, and I was wondering if there were any issues with the way you've structured your ring-fence that may affect your thinking?

Tushar Morzaria

We were careful when we designed our ring-fenced and non-ring-fenced banks to ensure that we could balance the capital requirement appropriately, so I think we'll continue to operate in a world where we would expect to use CET1 as a front-stop measure in terms of managing our financial resources, and leverage as a back-stop measure, which I believe is what were the intentions in the first place.

You've got to remember, in our ring-fenced bank, we do have a sizeable cards business which helps soak up some of the leverage. So at this stage, we don't think we'll be particularly leverage-constrained in the ring-fenced bank. You'll see, probably later in the year, we'll try to be as clear as we can on capital stacks on both the ring-fenced and the non-ring-fenced, so you'll get a sense for yourselves.

Andy Coombs, Citi

If I could ask a couple of questions on capital. One, in terms of lumpy items coming through in 2018, you flagged the 10 basis point benefit from BAGL. I think there's a \$2.7 billion preference share that could potentially be called, so what would be the capital impact there if you were to do that? Also, you've got the pension top-ups – what's the annual capital impact there? Is there anything else we should be thinking about in terms of lumpy items in 2018?

The second question attached to that, on RWAs you saw a decent decline of CIB RWAs in Q4, how much of that is just due to seasonality and FX translation, and therefore could it bounce back? And more broadly, how do you think about RWA growth going forward? You have this aspiration to grow revenues by £2bn; at the same time, you're now committed to this 6.5p dividend. How do you weigh those two things up? Thank you.

Tushar Morzaria

I think you've probably covered the obvious ones. When and if we retire expensive debt, the capital cost to them will depend on the prevailing FX rate, there should be enough in our disclosure that you could probably work out what it is. Obviously, we prefer a weaker sterling because we're profitable in dollars, but one of the benefits of sterling getting stronger is that it's cheaper to retire those instruments.

I don't think there's anything else I'd refer to. The only other one is, I guess, the extent you've got a couple of legacy litigation items remaining, so the timing of may have a capital effect, but no guidance on that.

Jes Staley

Hopefully you got this from the tone of our opening comments, we are very focused on returning excess capital to our shareholders. That's first and foremost. In terms of achieving the 9% or better RoTE number in 2019, earnings is a part of that. Probably half the earnings growth that we expect will come from the consumer side of the business, whether it's US Cards or UK mortgages. Some of that will mean allocation of RWA to those businesses. I think in the CIB we're pretty much looking at just a reallocation of existing RWAs as opposed to growth.

Martin Leitgeb, Goldman Sachs

First of all, congratulations on the strong set of numbers, in particular capital which was much better than at least what we expected for today. I have two questions, please. The first one is more broadly on capital. I struggle to understand your capital target in light of some recent peer group comments, and more specifically Lloyds yesterday.

Lloyds indicate that they need to be at 14% CET1 ratio, while you state your capital target of c.13%, today. If I just look at the two companies, Barclays is a cross-border bank, Lloyds is a domestic bank; Barclays is maybe more complex in light of the ring-fencing requirement, Lloyds is more domestic, more retail; on top that, you have the investment bank. How do we make sense that a domestic bank would need to run at a significantly higher capital ratio compared to you, from a regulatory perspective?

The second question is a quick follow-up on your recent disclosure on the US IHC. I know there has been a considerable reduction in assets. I think it seems these are mostly repos. Can you explain this reduction? And have these repos been booked into the branch? Thank you.

Tushar Morzaria

On the capital stack, you'll see a slide we have out there, we're trying to be as transparent as we can on how we see our capital stack. All banks are going to have some differences. Some banks will have domestic surcharges; we have a global systemic surcharge. We all have different pillar 2As, we all have different effects of counter-cyclical buffers, etc.

We've tried to be very transparent when you look at our stack. Everything we can see and what we know today, and you add about 150 to 200 basis points above that, you get into the low 13s, effectively. That's one way of looking at our capital stack. The other way is obviously looking at stress draw. Where we are today, you can, broadly speaking, take about a 500 basis points stress draw and still remain above the systemic reference point at the Bank of England, and that's at the upper end of the stress tests that we've experienced thus far. Obviously, we run our stress test; they're more conservative than the Bank of England's.

Of course, included in that stress-test drawdown, there is a meaningful component for conduct given the issues that we've been dealing with in the past. So considering everything we can see today, 13% feels about right, and we'll be as transparent as we can and we'll let you know if there's anything that we're seeing on the horizon that feels we need to refine that in any way. Hopefully, you've seen us do that over the years.

In terms of the IHC, I probably won't go into too much of the specifics in there, but obviously as we've had questions over the years about leverage ratio and asset mixing in the IHC. I've always said to you that we'll have the IHC appropriately capitalised in time for public CCAR tests. There's not a huge incentive to do it too far in advance of that. I think that's what you'll see in some of our plans just coming in. It's a mixture of things. There's downstream from AT1 which you probably saw from our disclosures, as well as changing our balance sheet, but there's no more detail than that I'd probably want to give on this call.

Jes Staley

The only thing I'd add is that, some people, and we, would argue that being a mono-line, single-geography financial institution is riskier than being diversified.

Claire Kane, Credit Suisse

Two questions, please. Firstly, could you update us on the initiatives you're doing in the investment bank, the RWA reallocation? You were quite specific about some of the revenue uplift you were hoping for there.

Then, secondly, on the capital return policy I guess the 6.5p is bringing you back closer to historical payout levels, which is close to around 40% of earnings. Can you just comment on the ambition to return surplus capital through buybacks? Is that depended on settlement of outstanding litigation, notably DoJ? Thank you.

Tushar Morzaria

In terms of where we are on reallocating RWAs within the Corporate and Investment Bank, we've made good progress, and it's had, I guess, two positive by-products. When we're looking hard at the areas of our corporate loan book that isn't earning its keep and being transparent with clients, one of the positive by-products is we actually get some more business from those clients in the corporate banking line, which we like a lot.

And where that's not possible, we'll redeploy those assets to other areas of the CIB where we can earn better returns, principally in some of the Markets activities. That's going well. I don't want to give a

percentage on it, it's an ongoing discipline that we have in place, but progress is good and yielding good results. So we feel very good about that.

Jes Staley

Tushar and I sat up here on March 1st 2016 and we cut the dividend from 6.5p to 3p in order to accelerate Non-Core closure, which we did last year. When we say something to our analysts or our shareholders, we aim to deliver it, so we build that credibility. So we took it down to 3p and now we're bringing it back to where it was at 6.5p.

I think whether it's in the US or what you heard in this week about UK banks, in part because of the role of stress testing, I think you will increasingly see buybacks play a role in returning capital across the industry. If you look at Barclays specifically, given where our stock is trading, the economics around the buyback programme are quite compelling.

Fahed Kunwar, Redburn

Two questions. The first one's on your Group NIM. There's a few moving parts, UK retail from 3.30% to the 3.20s%, but then you have a mix shift towards US cards, you have your wholesale funding rolling off, I think you said a 60 basis points benefit in BI, and also you've got rate rises coming through as well. How do we think about all of those factors in the NIM? Then, also, what rate-rise assumption do you have in the UK, regarding the 3.20% comment that you made?

The second question is on Barclays UK. You talk about getting the cost: income below 50%. Lloyds, yesterday, talked about low 40s. It's a similar-ish bank in the UK; could your ambition be perhaps bigger than that and move more towards a lower 40s, rather than getting it below 50? Thanks.

Tushar Morzaria

Group NIM, exactly as you laid out, it's quite tricky to think of Group NIM as a blended number because of the various constituent parts. I think the way you went round the houses, in some ways, BUK, CC&P and a weighted average is the right way to think about it.

Starting the BUK, somewhere around 3.20% feels about right. We didn't have, in our models, the expectation of many rate rises this year; to the extent we get some, we'll see what that does for us. The backdrop, of course, is that asset margin pressure is still pretty competitive and we'll see if that remains. So there are two forces going on there.

We actually feel pretty good with the way our NIM's held up in light of that asset margin pressure, and we've only really had the one rate rise, and I think most UK banks passed on the majority of that rate rise through. So we'll see how the year plays out, but the thing that's most pleasing for us is we've held our NIM and grown our mortgage book in what does feel like a very competitive market. We're operating in the part of the mortgage business that we like a lot, and it's very accretive to our business.

In terms of CC&P and the US card business, yes, we have moved away from the very low end of credit, the part of the portfolio we had that very low credit-rated assets. And you can see that the parts of the book that are growing well, portfolios like American Airlines and JetBlue tend to be more prime-orientated products, but the growth is very good there as well. So you put that all together, I think NIM will continue to be at reasonably healthy levels, really driven by growth.

Our weighted average cost of funding does appear, as we look at it today, to be very attractive to refinance our wholesale debt at these levels. We did a HoldCo euro senior earlier in this year, and I think it was at the tightest spreads that we've seen. We don't know what that'll be in the future, but if it

carries on like this, then as debt matures, particularly expensive swathes of debt matures, it does look like there's an opportunity to refinance at very attractive levels, and we'll see what that is in the future.

In terms of BUK cost: income ratio, below 50% is where we're targeting, and feel really good about that. There are a couple of things that are important when you line us up to peers. One is just the relative size of our mortgage business compared to our peers. Obviously, scale can be helpful. We're a very large participant, but there are people that are larger than us, and that's an advantage to them. Of course, we have a card business that's helpful in that regard.

The other thing is loan-to-deposit ratio. We do run a relatively conservative loan-to-deposit ratio, we have a very strong liquidity position. If we took that loan-to-deposit ratio to over 100%, which some of our peers do, of course that would be very accretive to their cost: income ratio, but gives you different risk profile. So that's another thing to probably look through when we compare ourselves to peers.

Fahed Kunwar

So on the Barclays UK NIM, there's no rate rise assumptions in the 3.20s% NIM guidance?

Tushar Morzaria

I'd be a little bit cautious about 'if the rate rises were off to the races', because there is downward pressure on the asset side. So I think we'll balance the two together. I think if there are rate rises and we can capture them, great.

Alistair Ryan, Bank of America Merrill Lynch

Following up on that theme, in the UK, you've got a balanced business and you've also got choices about whether you invest in the UK or elsewhere, so how do you think about growth opportunities? The consumer's very over-gear'd but the economy's pretty good, money's pretty cheap. You've been growing less than the market in cards, you've stayed out of some parts of consumer credit, you're growing ahead of the market in mortgages. How do you think about where the returns are for where the growth is, versus where you could give the money back to shareholders instead? Thank you.

Tushar Morzaria

We do like the UK business a lot. We have been probably a bit more cautious than some of the larger UK lenders. What that has really meant for us is that we just stick to the business we know well and concentrate on that. Therefore, you can see growth in mortgages. If you look at our disclosure, you'll get a chance, later on, to look at our results announcement, you'll see our mortgage production is still in the low 60s LTV even though we're growing the business.

So you'll see our name out there, but the business that we're printing is very much in our sweet spot. We haven't changed our risk appetite for some time. We're probably more biased towards secured credit rather than unsecured credit, given where we are in the cycle, but we'll be driven by how the economy performs.

The other thing I'd say is, growing that part of the business isn't hugely capital consumptive. The mortgage business, of course, has a relatively low risk weighted asset density, and even if were to grow our unsecured book, it's taken us 50-odd years to get to the receivables that we have, and it takes a long time to grow that business. So we aren't very capital constrained in terms of wanting to grow that business. So hopefully that gives you a sense of how we think about it.

Jes Staley

The largest data exposure of Barclays is to the UK economy and to the UK consumer. Right now, we're doing very well, impairment's at a very manageable level, profitability's at a very acceptable level, but that's, I think, where you'd want us, particularly given things like Brexit, is to be conservative in our underwriting standards.

The last thing you want to do is be chasing at the top of the market and then overreacting at the bottom of the market. So I think we've been properly cautious in the UK underwriting standard, both secured and unsecured. I think the trade we did in the US card business, early on in 2017, to drop-out the low [credit quality] part of that portfolio, in hindsight was terrific. So I think we are trying to blend being conservative in our portfolio with the high returns that we're getting right now.

Jonathan Pierce, Exane BNP Paribas

Two questions please. The first one, on the US card book, since the sale of that portfolio earlier last year, the 30 day arrears have gone up by about 40 basis points, and that's despite about 15% growth in the book, so could you just talk a little bit to the credit trends in that portfolio?

The second question is on the 60 basis points potential funding benefit in Barclays International. Your total wholesale funding is £157bn. I assume most of it is in Barclays International. It sounds like we're talking to £700m, maybe £800m worth of uplift in revenue from that, so can you give us a bit more detail on that?

Clearly we can identify the RCIs, but that's nothing like £800m. Is that just debt-accounted instruments as well, or are you including some of the equity-accounted, or the one US preference share in particular that's outstanding? A bit more detail on that would be helpful.

Tushar Morzaria

On US cards and credit trends, we were very glad we exited that lower-rated portfolio, as we got out slightly above par, but you look at the delinquencies on that book and that was good timing so hats off to the business for timing that very well, it was a very good transaction.

There are different parts of that US cards portfolio, the airlines, whether it's Alaskan, Hawaiian and JetBlue, those are growing well. We also have parts of the portfolio that won't nearly be as prime as that, for example, the Apple portfolio.

We like that mix a lot, so it gives us the right mix of yield but the right risk characteristics. Although we're watching credit conditions carefully, we're not at all really concerned by them at this stage. But it's something that's been a long cycle and it's something we're monitoring closely and you've seen some of the actions we've taken, both in the UK and in the US to be appropriately managing the risks around them. So it is something we're very mindful of but not concerned as yet and we'll keep a close eye on it.

In terms of the weighted average funding costs, think of that as term wholesale funding, don't think of that as tomorrow morning going to refinance £150bn at 60 basis points cheaper and off we go. It's really if spreads stay where they are and we continue refinancing as we've done, we're able to refinance at lower levels. And we do a decent amount of refinancing over the course of the year; we've still got some MREL to issue as well and that's very attractive.

When you look at our returns objective, at today's spread levels it's just yet another nice tailwind that we've got going for us and it will be what it will be over the quarters and years to come.

Jonathan Pierce

Can I just ask then what the actual number you're applying that to is within Barclays International? We can see at the Group level how much is termed funding.

Tushar Morzaria

We haven't disclosed that so I won't throw it out here, but you're right to point out there is MREL of course in the UK bank. So it's not just deposit-funded as times gone by, it will need to carry a decent amount of MREL. And you probably get a good sense of the UK division, so you probably could back into what the wholesale funding is effectively in Barclays International and do your own sums. But don't think of it as an instantaneous refinancing benefit it's something that will roll in over time if spreads stay where they are.

Ed Firth, KBW

Can I just bring you back to the capital question, because I guess we've all picked up the tone of your statement which is clearly that you feel we're approaching the land of plenty, if not there already. And just coming back to Martin's comment, if I benchmark you really against any of your peers I think you've got the lowest CET1 ratios in the UK. If I look at your slide, you generated about four basis points of underlying capital in Q4 and yet on top of that we've got US RMBS, your PPI is lower than a number of people so you might need to top that up, and you've got the IRFS 9 headwind.

So I'm just trying to square the tone of your comment, not necessarily the specifics. When I look at the numbers it doesn't quite seem to bear that out in quite the same way. So what am I missing in that analysis?

Tushar Morzaria

The way we think about it is obviously we've been improving our CET1 ratio on average 100 basis points, if not more, every year for a number of years now. And that's after everything; we've had PPI reserves, FX-related reserves and various other things going through. Some of that is because the underlying profits of the company are healthy and some of that, of course, is capital release from the reduction of Non-Core.

If you think about just organic capital that we create through profit generation, if you accept consensus forecasts of EPS for 2019 or even 2018 and put that into basis points for CET1, you'll get over 100 points of CET1 in terms of organic capital generation notwithstanding we've still got some tailwinds from Non-Core, Africa, and from various other things that you'd expect us to manage.

So every which way I look at it, there's enough capital generation in the company to support the distributions that Jes has talked about, to finance growth in the areas that we'd like to prioritise which aren't hugely capital consumptive and to deal with headwinds that we may have, for example, dealing with any legacy litigation. And you've seen our capital stack, we'll continue to be as transparent as we can about that, but at the moment everything we can see allows us to discharge all of those effects comfortably.

Ed Firth

So from your perspective, if I look at slide 15, the 4 basis points you think is an unusually low number for Q4?

Tushar Morzaria

Q4 is seasonally low, because the bank levy goes in in a single quarter so you always have that. If you want to look at it quarter-by-quarter, you should probably average out the bank levy. And there's other things that will happen from time to time. And if you look at 11 out of the last 13 quarters, or something like, our capital ratio has improved. So it doesn't mean it's going to go up every quarter but it sort of zigzags up, we are net generating capital over a year in every single year.

Jes Staley

And look at the capital growth in the fourth quarter despite the tax hit, and despite the conduct charge of some £200 million. So we took a lot of headwinds and still grew from 13.1% to 13.3%.

Alvaro Serrano, Morgan Stanley

It sounds like it's pretty important to resolve the litigation legacy to be able to contemplate share buybacks. We assume that it's taking longer for most banks to settle with the DoJ I don't know if you can give an update of the route you've taken, if you have any visibility on that. And is there any possibility you could actually contemplate share buybacks before you resolve DoJ, for example? It does feel like it's a bit of a long-dated aspiration.

Secondly, related to that on IFRS 9 and given your consumer books, you've seen some impairments pick up in the US; in an IFRS 9 world can you give us a sense of what kind of economic environment we need to see to endanger that 9 to 10% RoTE target because of the pickup of provisions?

Jes Staley

We have reset the dividend back to 6.5p because we closed Non-Core. We have also said that we are going to run above our end-state capital level of roughly 13% until some of these litigation issues are resolved. We wanted to talk about the buyback to advise our shareholders that we believe that as we generate excess capital and our ability to return it to shareholders, buybacks will be an instrument that we will use.

But yes, we really want to close out the litigation issues. We're not going to talk about where we are in terms of timing but we know that's something we've got to deal with in due course.

Tushar Morzaria

I think that we'll get more used to IFRS 9, just as the whole sector and industry will get used to how IFRS 9 charges look quarter-by-quarter. You all know it's a pro-cyclical standard compared to IAS 39 so there will be times when we'll build provisions in a quicker clip than we would have otherwise done on an incurred loss basis, and times when the reserve build will be much lower. I don't want to say too much more than that at this stage. I think as you'll see us book charges in the first, second and third quarters, you'll get a better sense of how they may look compared to IAS 39. I think you'll learn more from things like transition documents that the banks will come out with, probably around the time of their first quarter results which will give you more disclosures to help model that.

Chris Cant, Autonomous

I just wanted to circle back on your comments about the loan-to-deposit ratio and the ring-fenced bank. One of your large peers in a similar situation on loan-to-deposits in their ring-fenced entity has said they will look to push increasingly aggressively into the mortgage market given funding will become trapped in the ring-fenced bank. What is your aspiration on loan-to-deposits there? Obviously you're not going to be able to deploy that excess funding elsewhere in the business going forwards?

And, secondly, if I return to slide 11 you give us some sense of the differential in FX headwinds across the different lines or businesses within the Barclays International business. You've said that market is so far trending up in sterling terms but that's relative to a pretty soft Q1 comp last year, it was a bad print last year. If I think about the other components of the international business, looking at slide 11 it looks like the FX headwind is bigger in every other aspect of the Barclays International business – so it's a bigger headwind in equities, bigger in IBD, and bigger in CC&P.

Consensus has international revenues up year-over-year, is that realistic in light of your comments that we do need to factor in this FX headwind?

Tushar Morzaria

So on the loan-to-deposit ratio, we're towards the lower end of the peer range on our loan-to-deposit ratio. I think we would be comfortable getting closer to 100% but we don't have, at this stage, plans to go materially above that and some people are more comfortable running at 110%/120%. I don't think you'll see us do that.

We do get very good deposit growth, you've seen we grew deposits over the course of the year, even with rate rises, so that helps manage our LDR and we quite like the LDR somewhere around 100% or below, that is probably where we'd feel comfortable running it and we'll keep you updated on that.

With regards to foreign exchange sensitivities, you mentioned that Jes made a comment about the entirety of the Markets income, so FICC and equities. It wasn't just a comment around FICC. And you're right, half our income in the international businesses does come in US dollars so probably that gives you enough of an insight as to what's going on in the international business to model that against whatever FX rates you may want to assume. But about half our income [in Barclays International] and about 40% of the profits of the group [are in US dollars].

Rob Noble, RBC

You didn't call out anything in particular with Non-Core in the IB revenues this quarter; I think it was a bit of a bigger drag in Q3 if I remember rightly. Now you've run down the RWAs quite a bit in Q4 are we going to see that item pop up; are you going to be calling that out through 2018 or is the income effect for Non-Core assets small enough it's going to be negligible going forward?

And just a quick clarification on capital; in the capital stack you've used the 50 basis points counter-cyclical buffer. Can your 13% target absorb a 1% level as well within the management buffer, or would it drift higher on that?

Tushar Morzaria

The Non-Core trend is sloping downwards for sure, it wasn't significant in the fourth quarter to the extent, somewhat driven by markets. It's very hard to predict precisely, but to the extent it's significant we'll call it out where it's necessary. But I think you'll expect to hear less and less about it; we didn't talk about it at all in the fourth quarter and I don't think you'll be hearing too much about it as we go through the year, subject to market changes.

The counter-cyclical buffer of 50 basis points, for us that's the 100 basis points translated to what impacts the Barclays Group because of our UK bank. In terms of the size of the UK bank relative to the whole Group, it translates to a 50 basis point effect for the whole group, so that's effectively assuming a full 100 basis points as it's applied by the Bank of England's PRA.

Michael Helsby

Two follow-ups if I can. Firstly, just listening to you about the comparison with Lloyds, obviously the big difference is the SVR book that they've got, which you didn't mention. Could just update us on what your SVR percentage is? Also you've got some legacy trackers which are very, very low yielding, could you let us know what the percentage of that is still in the book? And then to wrap that up, what is the back book yield, and how that compares to where you're pricing front book at the moment?

And then just as a broader question, what your perspective on Open Banking, and do you see this as an opportunity to take share?

Tushar Morzaria

The SVR business for us is pretty small and we don't call it out because it's virtually negligible which is unfortunate, but it is what it is. Our legacy trackers unfortunately aren't so negligible; again we don't quote that, but in some ways the reverse of the SVR benefit is probably what's going on in Barclays' back book where we have a higher proportion of legacy trackers that are very low yielding and unfortunately a very small book of high yielding SVR.

So what that does do, of course, is that even at the competitive mortgage pricing, production yields are still pretty attractive relative to our back book and that's why we like the business as well. And you've got to remember you've seen our name in all sorts of different products, but the production that we do in our home products, we still very much prioritise re-mortgaging and low loan to value business. So even at those relatively low yields, because the risk is relatively low, we still like the business relative to our back book yields, so still effectively accretive.

On Open Banking, we'll see. One of the things that we've done a really good job on in the UK business, particularly under Ashok's leadership, is how we've progressed our digital offering. We think we've got the best mobile app out there; you can do more on our app than others. The production that we have in consumer loans, so personal lending, is probably higher through our app and simpler through our app than we believe in some of our competitors' apps.

We have an API store out there that allows other retailers and other providers to connect to Barclays in a very safe and secure way. This trend, where in times gone by if you wanted to bank with Barclays you went and found Barclays, you'd come to our branch, you'd ring us up, you'd call our contact centre, etc.. The API store allows the bank to find you in some way, so you can plug into where you're doing your business at the moment and transact through Barclays there rather than having to go and find us.

On our API store, we're not Apple, but it's like the Apple app store for Barclays. We do feel that there is an opportunity set for us, for those that are very progressed around that digital channel. I still think there's something about big UK banks, where as much as society has a big problem with big banks, they do still trust them with their data and information. And I still think there's a lot of customers out there who will be less trustworthy for other financial service providers than the big banks.

You see that we've been running a lot of advertising campaigns around digital safety and fraud awareness, and the market research that we're getting back on that is that really resonates with customers. And so therefore I do think there's a real opportunity for the big banks to perhaps be the aggregators and I know other banks are thinking along that line as well. I guess we'll see, if that were to be the case, I would definitely back our chances to be a net beneficiary from that.

Jes Staley

I think the thing about it is the FinTech company is an innovator looking for a scale distribution platform. With 10 million consumers today touching Barclays, either on a smart phone or over the internet, and 24 million customers in total, we have plenty of scale looking for innovation. Ashok and

his team are generating innovative products, so Open Banking could be a competitive advantage to the larger banks.

Raul Sinha, JP Morgan

If you look at slide 36, the interest rate sensitivity which you've been very helpful with in terms of the analysis on year one to year three, seems to have gone down a little bit from the last time you published. I was wondering if you might give us any thoughts on why that's gone down even though it still shows you're very rate-sensitive?

On a broader question, if you look back on these results it looks like the IB has stopped underperforming peers, which is an inflection point compared to what we have been seeing in terms of results for some period of time. And prior to this you have been very clearly putting capital investment into various areas as well as people. So I just wanted to ask you as to, one, do you think the IB is now fully inflective in terms of all the investments you put in or is there more to come? And what do you think of the three areas really driving the lack of underperformance this quarter?

Tushar Morzaria

On the interest rate sensitivity, I wouldn't see it as a definite prediction of what's going to happen, of course. It's probably precisely what won't happen. If a 100 basis point parallel shift in the curve, and taking assumptions in terms of how much of short-end rate rises, if you do get 100 basis points shift, we pass through, we give a low and a high scenario.

It has some assumptions around what the long-end rolls into in terms of refinancing, and the yield curve is different from where we were to where it is now, so our funding profile and everything's a little bit different. And also has some assumptions around, of course, as rates back up, we would expect some of that balance to become more rate sensitive and potentially immediately leave the bank. We haven't actually experienced that yet but we'll see what potentially happens in the future.

Really the point of the slide is just that we are very rate-sensitive particularly in years two and three for large rate moves. I wouldn't get too hung up on the precision around those numbers. If we do get a number of rate rises and get anywhere near 2%, that's a good environment for us to be in, assuming the economy's helping, and that's really the point we wanted to make.

Jes Staley

As Tim and I talked about, to course-correct the IB, it's people, technology and balance sheet; I think we've started that journey, we've hired the senior team for that business. In technology we're in early stages but we've had some good wins. We launched our interest rate swap electronic trading platform in August of last year in the US and just now in Europe. In the US, our market share in Tradeweb which you can track for clearing in packaged USD swaps was 0.7% when we launched this platform, we're now over 10% and that has a knock-on benefit doing other rates trading with our clients.

And there are more technologies to rollout, but we feel pretty good how the journey has just begun.

John Cronin, Goodbody

The first question is on the risk-weighted asset inflation outlook and how you would guide around how that might balance particularly given the engagement of the PRA in that context on a medium-term view, so really on a three year view particularly? Second question is in relation to the credit cards arrears which improved in Q417 so anything you can call out there in respect of those trends would be helpful.

Tushar Morzaria

Regarding the UK card delinquencies just nudging down slightly, flat to down there's nothing more I can call out. It still feels like a fairly benign credit environment as best as we can see in consumer credit. That's something we've been mindful of and watching very carefully, but it continues to be remarkably benign and we'll continue to monitor that.

In terms of risk-weighted asset inflation as a result of more of technical rule changes, obviously the big thing on the horizon but quite some way out is Basel IV. It's a pretty comprehensive package of whether it's operational risk output floors, standardised risk-weights etc. It will be several years before that comes in and obviously there'll be some discretion applied by national regulators as they come and adopt that. So I think it's just a bit too early and a bit too far out on the horizon to be giving any guidance for that.

But coming back to our capital trajectory, based on everything I can see today, running the capital stack as we have today should be sufficient for us to manage through all of this.

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