S&P Global
Market Intelligence

Barclays PLC LSE:BARC

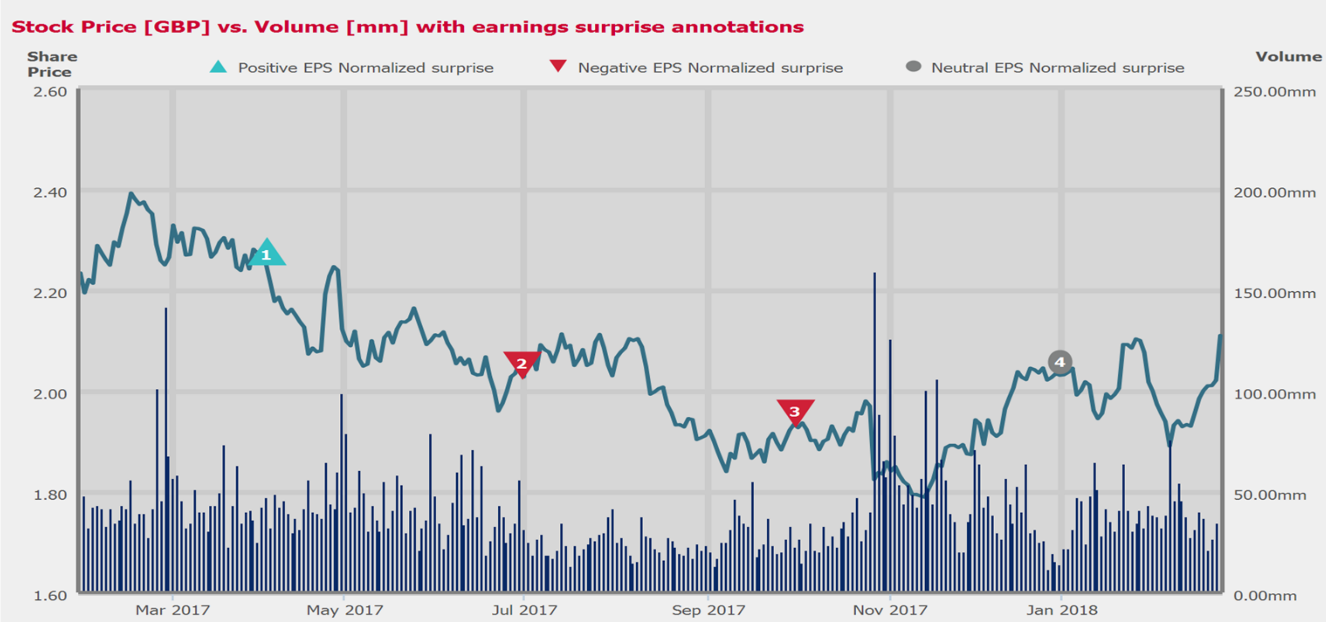
FY 2017 Earnings Call Transcripts

Thursday, February 22, 2018 9:30 AM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2017-			-FQ1 2018-		-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	SURPRISE	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.02	0.03	0.00	0.06	16.67	0.15	0.16	6.67	0.19
Revenue (mm)	5102.04	5022.00	(1.57 %)	5523.52	(3.63 %)	21180.80	21076.00	(0.49 %)	22144.38

Currency: GBP
Consensus as of Feb-22-2018 9:14 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2017	0.15	0.16	1 6.67 %

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Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

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Group Finance Director & Executive Director

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Presentation

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

Good morning, everyone, and thank you for joining our full year earnings presentation.

2017 was a year of considerable strategic progress for Barclays. On the 1st of June, we continued the sell-down of our shareholding in Barclays Africa to a level which will permit regulatory deconsolidation.

We closed Barclays Non-Core unit 6 months ahead of time on the 1st of July. So over a 2-year period, our Non-Core team eliminated some GBP 95 billion of risk-weighted assets, sold more than 20 businesses and exited operations in a dozen countries. And this all realized savings of over GBP 2 billion.

Between Africa, Non-Core and other restructuring, our overall payroll is now down some 56,000 people since I joined the firm a little over 2 years ago.

We've also established our service company, which employs 52,000 out of our total headcount of 80,000. The ServCo delivers a unified approach to our Core business processes such as operations, technology and functional services.

By December, we largely completed the work to build our U.K. ring-fenced bank, which is expected to be up fully running 6 weeks from now.

Taken together, these accomplishments mean that we have completed our restructuring of Barclays and strategically recast the company as a diversified, transatlantic, consumer and wholesale bank.

The benefits of all these actions in terms of cost efficiencies, balance sheet strength and improvements in operational effectiveness, are already being felt throughout the bank.

While we've got some way to go in terms of delivering [exceptional] returns at a group level, I'm encouraged by how we're executing on the plans we've laid out, and momentum is building.

Our group PBT increased by 10% year-on-year, driven in large part by a reduction in Non-Core losses. Group RoTE, excluding material items, improved to 5.6%.

In Barclays U.K., profitability held up as we saw a good progress in mortgages, deposit growth and mobile banking.

Our Consumer Cards and Payments business in Barclays International continued to produce very strong income as well as managing [all its] risks.

In the fourth quarter, our CIB performed fairly well relative to the market, with our fixed income and currency trading comparing favorably against peers in that same period.

As we're only 7 weeks into the first quarter of 2018, it is too early to offer formal guidance for the quarter. But we are pleased with the start to the year, and in particular, in the markets business of our Corporate and Investment Bank where income so far is tracking above the level of the corresponding period in 2017, and that's in both dollar terms and sterling terms.

But perhaps most importantly of all, we entered 2018 in a strong capital position. And this morning, we have printed a CET1 capital ratio of 13.3% for the year ending December 2017. And this was despite a 20 basis point headwind in the fourth quarter from the reevaluation of U.S. deferred tax assets and a roughly 10% -- or 10 basis points charge for some litigation and conduct matters.

This level of capital is comfortably within our end-state target range of around 13%. And it means that Barclays today is in a position to generate excess capital through profits. And our capacity to do so will increase over time. We have a portfolio of profitable businesses producing significant earnings, and we have plans and investments in place to grow those earnings over time, plans which I covered in my remarks at our third quarter results. At that time, we set ambitious but obtainable targets for group returns for greater than 9% in 2019 and of greater than 10% in 2020. These are based on a CET1 ratio of around 13% and exclude litigation and conduct.

We gave related guidance for group costs in 2019 of between GBP 13.6 billion to GBP 13.9 billion, also excluding litigation and conduct. We remain confident in our ability to achieve those return targets, and my team and I are resolutely focused on execution against our strategy of being a diversified transatlantic bank.

It is worth emphasizing in this context that Barclays today generates around 40% of our profits in the United States. We will consequently benefit materially from the recent corporate tax cut in the U.S.

Tushar will cover the positive impact of this on the group's effective tax rate in his remarks. But the effect of this change, plus the opportunity in time, to retire historically expensive financing from the '08/'09 financial crisis will act as a tailwind for earnings this year and in subsequent years to come.

I do acknowledge that we still have a number of significant legacy conduct issues left to address, and these will need to be dealt with, for sure, in due course. Nevertheless, the confidence I have in the quality of each of our businesses and the execution of our strategy and in the strong and sustainable capital generation capability within this group, is reflected in the policy of the capital returns I have set out this morning.

Core to that policy is this management team's commitment to prioritize the return of capital to shareholders beginning this year.

In the first demonstration of that commitment, this morning, we have announced that we plan to pay a dividend for 2018 of 6.5p, which is more than double the level we paid in 2016 and 2017, and restores the dividend to that which -- to the level that we paid to shareholders in 2015.

While this is an important first step, it still represents a fairly modest proportion of the projected earnings for Barclays as we deliver on our strategy. It is our firm intent over time to return a greater proportion of those earnings to shareholders.

With this in mind, we plan to supplement the ways in which we distribute excess returns beyond the annual dividend, and this will include the use of share buybacks. It has been some 20 years since Barclays last used share buybacks as a means of delivering value to investors, but we expect this to be an important part of the capital return mix now going forward.

So we finished 2017 in a good position strategically and for the first time in 5 years, we'll start 2018 with a clean operating model.

We remain focused on improving returns across our business lines, on managing costs and on executing on our strategy, and I'm encouraged by the progress that I'm seeing.

We are feeling increasingly confident about the capacity of this bank to generate excess capital going forward, and for our prospects of returning a greater proportion of that excess capital to shareholders through dividends and other means of distribution.

So now, let me hand over to Tushar to take you through the numbers in detail, after which we'll be happy to take your questions.

Tushar Morzaria
Group Finance Director & Executive Director

Thanks, Jes, and good morning to everyone. Okay, our results announcement this morning contains detailed commentary on our financial performance for the full year of 2017. I'll refer briefly to the full year but spend most of the time on the Q4 financials. In order to help you better understand the performance and trends, we've again produced a slide showing material items and other items of interest which is in the Appendix for the pack.

The Q4 PBT was fairly clean with some additional litigation and conduct, principally in relation to FX matters. The main one-off that I'm calling out this quarter is in the tax line, the DTA write-down that we flagged in December following the U.S. tax changes.

In the Q4 cost line, we had the positive effect from the nonrecurrence of the compensation changes that we announced last year, and that's a delta of around GBP 370 million.

Starting with a few words on the full year. As Jes mentioned, 2017 was a year of strong progress in implementing our strategy. The sell-down of BAGL to 14.9% was completed ahead of schedule. Although this resulted in one-off losses of GBP 2.5 billion through the discontinued line, it has brought us significant capital benefits with around 60 basis points accretion to the CET1 ratio across the year and around 10 to come when we achieve full regulatory deconsolidation expected later this year.

The Non-Core segment was closed in July, so the 2017 results include Non-Core as a segment for H1 only, with the former Non-Core reflected in the other segments in Q3 and Q4, while 2016 included a full year of losses from the Non-Core segment.

The segment loss before tax was reduced by GBP 2.1 billion to GBP 0.6 billion. That of course, overstates the underlying P&L effect of the Non-Core rundown, but does indicate a scale of benefit from our actions, allowing us to report a 10% increase in PBT to GBP 3.5 billion for the full year, with positive jaws despite our investment program.

Excluding the Africa one-off, the DTA write-down and litigation and conduct, group RoTE was 5.6%. Our profit generation and strategic actions contributed to the 90 basis points of accretion in our CET1 ratio to end the year at 13.3%. This is at our target level of around 13%, which means we can increase our focus on actions to improve RoTE and returns to shareholders, as Jes mentioned.

Switching focus to Q4. I'll cover the highlights for each business on the following slides, and there are more detailed slides for each business in the Appendix.

Capital ratio accretion I referred to was also evident in Q4, with CET1 increasing from 13.1% to 13.3% despite the headwinds from the net DTA write-down and litigation and conduct charges.

The initial effect of U.S. tax reform is negative, but it's a significant positive for us going forward. And we are now guiding to a reduced group effective tax rate in 2018 and future years, expected to be in the mid-20s.

Overall, income was up 1% despite the headwind from the 7% year-on-year depreciation of the U.S. dollar.

Q4 was another tough quarter in the markets for CIB with low volatility affecting the FICC and equity businesses, but we were pleased with our performance relative to peers.

We had positive jaws with a 6% reduction in group costs, excluding litigation and conduct.

The impairment performance reflected a prudent risk management we've talked about many times in the past, with a 12% reduction year-on-year despite a single name charge relating to our U.K. corporate. This resulted in a group loan-loss rate of 56 basis points.

TNAV reduced by -- in Q4, by 5p to 276p driven by the DTA write-down.

Looking at the individual business now and starting with Barclays U.K. The U.K. reported broadly stable income up 2%. Within that, Personal was up significantly from Q3, while Barclaycard was down by a similar amount. And both of these deltas were driven by one-off effects; effective interest-rate updates in Personal and remediation in Barclaycard.

We've maintained pricing discipline, with underlying NIM broadly stable on Q3 and slightly up on last year, adjusting for the ESHLA effect.

The runoff had a slight beneficial effect on Q4 NIM, and the asset pricing environment remains very competitive. So looking forward, I'd expect a margin in the [320s] for 2018.

With regards to balances, apart from the transfer of ESHLA loans from Non-Core in Q3, I would highlight the growth of GBP 1.4 billion in the mortgage book in Q4, to add to the GBP 2 billion of growth in Q3. And deposits also continued to grow.

Digital engagement with our customers has reached record levels, with over 10 million digitally active customers and that's up 7% year-on-year.

Risk appetite remained tightly controlled, and we saw a slight improvement in arrears rates in Cards, while impairment was up just GBP 4 million and the LLR down slightly.

We continue to spend on the implementation of the U.K. ring-fence, which is on track for launch in April, and spending increased on cyber resilience and digital. We also had a charge in Q4 for branch optimization. Our aim remains to take the BUK cost-income ratio to below 50% as cost efficiencies come through over time.

Turning now to Barclays International. Overall BI's income and profits were down, as CIB's performance was affected by low volatility in client activity compared to a strong Q4 last year. The depreciation of the U.S. dollar was a material headwind and remained so in the first few weeks of this year. You can see from the chart on the right that the BI income was fairly even balanced across banking markets and CCP. Overall, roughly half is in U.S. dollars. Impairment reduced by 9% despite that single name charge in the CIB.

Looking now in more detail at the BI businesses. Total income for CIB was down 11% to GBP 2.3 billion, driven by continuing low volatility, which as in Q3, affected the FICC and equity businesses. The year-on-year comparison was adversely affected by the dollar depreciation, but this has had beneficial effect on costs in sterling.

Looking at the income trends by product. We've combined credit and macro to give a FICC number for ease of comparison with our peers. The breakdown is in the Appendix, but from Q1, we will move to in line with peers and report just the FICC line.

FICC income was down 21% in sterling terms but 14% translated into dollars. Credit was up year-on-year, with improved performance in munis while macro was down sharply, typically in rates, reflecting record low levels of volatility, while last year's Q4 benefited from some pickup following the U.S. election.

Equities was down 12% or 4% in dollar terms. We also had negative income in markets in Q4 from the former Non-Core assets but not significant enough to call out as a major driver in the quarter.

Banking fee performance reflected a strong print in DCM and was up 2% in dollar terms against a strong Q4 2016.

Corporate lending was down, with lending balances reduced as we reallocated RWAs within the CIB, while transaction banking was broadly flat.

Costs were GBP 2.4 billion, up 4%, including a provision of GBP 240 million, for matters relating to FX.

We are investing in a business in targeted areas and continuing with the reallocation of RWAs from the corporate loan book into higher-returning areas.

And moving on to CC&P. Net loans and advances in U.S. Cards grew by 5% year-on-year in dollar terms and 12% excluding the effect of the sale of the higher-risk assets we announced in Q1.

American Airlines and JetBlue portfolio have been growing well in the last couple of quarters, and initial takeup on the Uber card since launch in November has been encouraging. We also achieved 10% growth in the German card and loan portfolio.

The overall income growth of 1% year-on-year reflected good underlying growth in Cards, partly offset by the repositioning of the U.S. Cards' portfolio towards a lower-risk mix, including the sale of those high-yielding assets in Q1.

We saw record volumes of payments processed in the merchant acquiring business, which also completed a migration of customers to new merchant acquiring platforms. The impairment charge is down 23%, reflecting the repositioning towards a lower-risk mix.

We've seen some increase in underlying impairment year-on-year, but delinquencies are flat, including the benefit from the U.S. asset sale, although it was slightly up on Q3. We're not concerned by this, but continue to monitor credit conditions carefully.

Cost increased by 10%, principally reflecting business growth and investment. On an underlying basis, CC&P had modest positive jaws.

Turning now to Head Office. As you know, Head Office by its nature does fluctuate from quarter-to-quarter, and you can see this from the chart of the last 5 quarters. In Q4, there was a negative income from the net impact of Treasury operations, caused by a number of factors, many of them technical such as hedge accounting and currency translation losses on capital repatriation.

The quarterly income is and will remain difficult to forecast precisely as some factors may be positives or negatives from quarter-to-quarter. But we will be reflecting some of the cost of legacy capital instruments in Head Office from Q1. So we are likely to have some recurring negative income going forward whilst these instruments remain outstanding.

We can clearly see the increased level of costs in Head Office since the absorption of some of the residual Non-Core such as the back book of Italian mortgages. And over time, we expect these to reduce gradually.

Overall, the loss before tax was GBP 365 million compared to a profit of GBP 162 million in Q4 last year. And I would just remind you that last year included a translation gain on the sale of Southern European Cards through the other net income line.

Head Office RWAs were down significantly, principally reflecting the proportion consolidation of Africa.

Before I go into capital, I just want to say a few words on -- about our cost trajectory. As shown on this slide, the 5% reduction in our cost base, excluding litigation and conduct from 2016 to 2017, the biggest driver of lower cost was a reduction in and closure of Non-Core. Litigation and conduct was also down slightly year-on-year.

Elsewhere, we have been investing in growth areas and to generate cost efficiencies for future years. The 2017 total of GBP 14.2 billion is in line with the guidance we gave at Q3 and reflected continued investments through Q4, which included cost-efficiency measures such as the branch optimization I mentioned in BUK.

We've issued guidance for 2019 costs, excluding litigation and conduct, in the range of GBP 13.6 billion to GBP 13.9 billion, which is expected to deliver a group cost-income ratio of below 60%, and that still holds.

We haven't given guidance for 2018. We do expect savings from the lower SRP costs as we complete the U.K. ring-fencing in H1 and lower costs for restructuring and Non-Core.

But we have also targeted investment spend throughout the year, and some of the cost efficiencies won't come through until later years. So, as I've said before, in 2018, we won't simply step down to the 2019 level.

Moving on to our capital position. In Q4, we saw our CET1 ratio grow from 13.1% to 13.3%, which remains at our end-state target of around 13%.

I'm particularly pleased with this given Q4 seasonal effects on underlying profit contribution and the headwinds from the DTA write-down of 20 basis points and further litigation and conduct of 11 basis points.

We generated 24 basis points from Africa, including the appreciation of our residual holding, which is treated as an AFS asset. We still expect a further 10 basis points will flow from full reg deconsolidation by the end of this year.

In terms of headwinds, we still have some residual litigation and conduct to resolve. However, we remain comfortable that our capital flight path from here will satisfy our regulatory requirements and generate capacity for attractive capital return to shareholders.

Our intention to increase the 2018 dividend to 6.5p, subject to the usual regulatory approvals and stress test outcomes, is a clear statement of intent in this regard. Our average U.K. leverage ratio ended the year at 4.9%, well above our required level.

Before I conclude, a couple of points of topical interest. Following the U.S. tax reform approved in December, we announced the DTA reduction, and that we expected a positive impact on our U.S. earnings.

We flagged some uncertainty as to whether the potential adverse impact of the so-called BEAT provisions would materially erode this positive effect. Now that we've had time to assess the effect of the legislation, we're confident that the tax cuts will materially reduce our U.S. effective tax rate.

Although there remain a number of uncertainties, and particularly around the BEAT provisions, we are now in a position to guide to a group ETR in the mid-20s for 2018 and for future periods. We see this coming through with effect from Q1.

Next, a few words on IFRS 9. At Q3, we announced our preliminary estimate of the effect of implementation of IFRS 9 on both TNAV and the CET1 ratio. And since then, we have continued to refine our models and methodology, resulting in an increase in the impairment stock on the 1st of January 2018 of GBP 2.8 billion; the upper end of the range we indicated.

Meanwhile, the reduction in U.S. tax rates has had 2 effects. The downside is that it reduces the value of the tax shield on this increase but it also lowers the tax in our U.S. profits going forward. The TNAV effect as at the 1st of January is now GBP 2.2 billion off 13p per share.

The other effect is that the U.S. DTA write-down takes our timing difference DTAs well below the threshold at which we would incur a capital deduction. The overall result is that the estimated fully-loaded impact of implementation on our CET1 ratio without transition has reduced from the 40 basis points we estimated at Q3 to 34 basis points. With transition, we'd expect the ultimate end effect to amount to a few basis points below this. There are slides in the Appendix showing the component parts in more detail.

As we said in Q3, the effect of implementation does not have a major [way] in which we think about our capital flight path.

So to recap. Capital has strengthened further in Q4, and we are confident that the outlook for our capital flight path will allow us to deliver attractive returns of capital to shareholders. We have therefore announced our intention to pay a dividend of 6.5p for 2018, subject to the usual regulatory approvals.

Our strong capital position allows us to focus on management efforts, increasingly on improving return on equity across the group. We have made progress in a number of businesses, included increased digital engagement in BUK, underlying growth in U.S. Cards and a resilient performance across CIB markets and banking businesses.

It's too early in the year to comment on the 2018 outlook, but I would just make 3 observations. The recent depreciation in the dollar is currently a headwind in terms of sterling results. While the lower tax rate we are guiding now is a tailwind. In terms of trading, we've mentioned that income in the CIB markets business is up year-to-date compared to the corresponding period last year, both in dollars and in sterling. But of course, it's still early days, so we're not guiding on the quarter.

This, together with strict cost control across the group, moving the group cost-income ratio to below 60%, are the key elements in delivering our RoTE targets of greater than 9% in 2019 and greater than 10% in 2020. Thank you.
And now, Jes and I will be happy to take any questions you may have. And I imagine there's going to be quite a few questions. So if we can maybe just start with 2 each and see how far we go. Michael, do you want to kick off?

Question and Answer

Operator

[Operator Instructions]

Michael Francis Helsby
BofA Merrill Lynch, Research Division

Michael Helsby from Bank of America Merrill Lynch. Essentially just where we left off on the ROE -- RoTE target I should say. And as far as I'm aware, when you set the targets, you weren't banking on U.S. 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 that? And secondly, I was just wondering if you could give us a little bit more color on the performance in Q1? And strategically, whether the tax reduction in the U.S. actually makes you change the way you think about how the Investment Bank is shaped, whether that pushes more to the U.S. in terms of the balance sheet?

Tushar Morzaria
Group Finance Director & Executive Director

Thanks, Michael. Shall I do RoTE and you pick up the IB? Yes, I characterize -- you're right we didn't have the tax rate reductions in our models when we came up with our RoTE targets. so I'd say it's more of the latter, Michael, it just increases our confidence. So we feel confident of getting there without the tax cuts, the tax cuts is just a tailwind that will give us increased confidence. Remember, we did say greater than 9%. And there's going to be things that will go against us, things that go for us. We had a view on what the macroeconomy will be, that will be what it will be. FX rates are currently a headwind, that may be different by the time we get to 2019. We don't know the rate environment. It feels a bit better than we currently -- where we have projected that, so that could be a bit of tailwind. Tax effects look like they're definitely going to be a tailwind. So I think there's pluses and minuses there. And we were just focused on the things that we can absolutely control, and that's growing our top line, strict cost control and allocating capital properly. And by doing that, we feel pretty good at getting to above 9%, and probably a bit more confident than we had because some of these effects. But I would just remind you that the -- you've probably got it in your models but don't ignore the dollar sort of tax rate, we specifically called out that, about 40% of our profits and half our BI income is dollar-denominated. So it's going to be what it'll be, depending on the tax rates. Do you want to do the IB?

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

Across the overall business, we've already embraced this idea of being a diversified consumer, wholesale and transatlantic. And clearly, the tax move in the U.S. will have a pretty significant [indiscernible] impact on us, both in the IB but also in the Card business. In the Card businesses, we see it was up 12% last year. The American Airlines deal's rolling out extremely well. We started that in the first quarter of '17. We added 30,000 new card consumers in the first quarter. By the fourth quarter, that was 120,000 in the fourth quarter. And people know, for the credit card industry, there's a pretty strong J-curve to the profitability of that business, and it's generally sort of 18 to 24 months and we started the beginning of '17. So it will be interesting to see that how plays out. And the tax impact will benefit that as well. We're a British bank, the U.K. is our home. There won't be any strategic move, but do you always want to optimize your tax policy by where business is booked sometimes? For sure.

Tushar Morzaria
Group Finance Director & Executive Director

Let's take Tom.

Operator

[Operator Instructions]

Thomas Andrew John Rayner
Exane BNP Paribas, Research Division

It's Tom Rayner from Exane BNP. Can I just stay with the Investment Bank piece, please. I think typically, you don't comment at this stage on year-to-date progress, so the fact you have I guess is giving us a fairly strong message. I just wondered if you could comment a bit more there on how you're performing relative to competitors in terms of market share because 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? And if I can, I've got a second question on ring-fence, please?

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

The only thing I would say about relative performance -- we're not out of the first quarter yet, it's way too early. But I [reiterate] 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.

Thomas Andrew John Rayner
Exane BNP Paribas, Research Division

But the comments were about year-to-date over...

Tushar Morzaria
Group Finance Director & Executive Director

I think from the 6, 7 weeks into the year, I mean, now I don't know what other banks are doing, so I -- it's a bit difficult to start extrapolating. We felt good about some market share gains we feel we got back in the fourth quarter. It's been a decent start. We'll see how it goes. So it's just too early to start getting into specifics. You have another question on ring-fencing I think?

Thomas Andrew John Rayner
Exane BNP Paribas, Research Division

Yes. It's just on the ring-fencing, [the launch is close], but are there any issues -- and the one sort of in my mind is possible leverage requirement, that sort of affects your overall strategic thinking within that business. And some of your competitors are pushing very hard now on U.K. mortgages, and I just wondered was there any issues with the way you structure ring-fence that may affect your thinking?

Tushar Morzaria
Group Finance Director & Executive Director

Yes, we were careful when we designed our ring-fence and nonring-fenced banks to ensure that we could sort of balance the capital requirements appropriately. So I think we'll continue to operate in a world where we would expect [to see] CET1 as a front-stop measure in terms of managing our financial resources and leverage as a backstop measure which I believe is what was the intentions in the first place. You've got to remember in our ring-fenced bank we do have a sizable Cards business, which helps soak up some of the leverage. So at this stage, we don't feel -- we don't think we'll be particularly leverage constrained in the ring-fenced bank. And you'll see over the course probably later in the year, we'll try and be as clear as we can on the capital specs on both the ring-fence and the non-ring-fence, so you'll get a sense for yourselves.

Andy?

Operator

[Operator Instructions]

Andrew Philip Coombs
Citigroup Inc, Research Division

It's Andy Coombs from 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 points of benefit from BAGL. I think there's a GBP 2.7 billion [indiscernible] that could potentially be called. So what will be the capital impact there if you were to do that? Obviously, you've got the pension top-up with the growing of capital [indiscernible]. Is there anything else we should be thinking about in terms of lumpy items into '18? And then the second question attached to that. RWAs, you saw a decent decline of CIB RWAs in Q4. How much of that's just due to seasonality, FX translations and so forth and therefore could it bounce back? And more broadly, how do you think about RWA growth going forward? But you have this aspiration to grow revenues by GBP 2 billion, at the same time you're now committed to this 6.5p dividend? How do you weigh those 2 things up?

Tushar Morzaria
Group Finance Director & Executive Director

Yes. I'll do the lumpy capital and then Jes can talk a bit more about trajectory from there. I think you've probably covered the obvious ones. I don't know, whether we retire -- and when and if we retire expensive debt out of the capital cost to them will be depending on prevailing FX rate. There should be enough in our disclosures that you could probably work out what it is. Obviously, if sterling gets stronger -- we prefer a weaker sterling because we're profitable in dollars, so that's much more beneficial to us. But it's -- 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, to the extent you've got a couple of legacy litigation items remaining, RMBS and one other so the timing of that may have a capital effect, but no, no guidance on that.

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

So first, and hopefully you got this from the tone of our opening comments. We are very focused on returning excess capital to our shareholders, and so 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 of the earnings growth that we expect will come from the consumer side of the business, whether it's U.S. Card or U.K. mortgages. Some of that will mean an allocation of RWA to those businesses. And thinking of CIB, we're pretty much looking at just a reallocation of existing RWAs as opposed to growth.

Andrew Philip Coombs
Citigroup Inc, Research Division

When you say, half the value, is that cost [to the bottom line] or cost of income from...

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

Just roughly half of income growth will be in the consumer business, and half will be in the [indiscernible] business.

Tushar Morzaria
Group Finance Director & Executive Director

Martin?

Martin Leitgeb
Goldman Sachs Group Inc., Research Division

It's Martin Leitgeb from 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 2 questions, please. The first one is more broadly on capital. And what I struggle to understand a little bit is your capital target in light of some recent [peer group] comment, and more specifically, Lloyds yesterday. Lloyds indicated I think to be at 14% Core Tier 1. You restated your capital target of 14% today. If we just look at [raw data] to companies, Barclays is a cross-border bank, Lloyds is a domestic bank. Barclays, it may be more complex in light of ring-fencing, with the ring-fencing requirements, largely it's more domestic, more retail. On top of 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 just a quick follow-up on your recent disclosure on the U.S. IHC, and I know there has been a considerable reduction in assets. I think it seems from an external perspective these are mostly repos. Can you explain the reduction? And have these repos been booked into the branch?

Tushar Morzaria
Group Finance Director & Executive Director

Yes, shall I take both of them. Yes, on the capital stack, you see a slide that we have out there. We're trying to be as transparent as we can on how we see our capital stack. And those banks are going to have some differences. Some banks will have domestic SIFI-type surcharges, we have a global systemic surcharge and we'll have different Pillar 2As, we'll have different effects of countercyclical buffers, et cetera. So we've tried to be very transparent. When you look at our stack, and everything we can see and what we know today, and you add about 150 to 200 basis points above that, we get into the low -- sort of low [13s] effectively. That's one way of looking at our capital stack. The other way, is obviously, looking at stress draw. And where we are today, you can broadly speak and take about a 500 basis point stress draw and still remain above the systemic reference point of the Bank of England and that's at the sort of the upper end of the stress tests that we've experienced thus far, obviously we run our own stress tests, sometimes they are more conservative than the Bank of England. And of course, including that stress test draw, there is a -- obviously a meaningful component for conduct given the issues that we've been dealing with in the past. So 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 and hopefully you've seen us do that over the years. In terms of the IHC, I probably won't get into too much of the specifics in there. But obviously as we've had questions over the years about leverage ratio and asset mix in the IHC. And I've always said to you that we'll have the IHC appropriately capitalized in time for a public CCAR test. And there's not a huge incentive to do it too far in advance of that. And I think that's what you'll see in some of our plans just coming in. There's a mixture of things, the downstream from AT1, which you probably saw from our disclosures, as well as changes in our balance sheet. But there's no more detail than that, I'd probably want to give on this call.

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

The only thing I would add, Martin, I appreciate your comment but -- is [indiscernible] constraint to stress testing there are some people -- and we would argue that being a monoline, a single geography financial institution is riskier than being diversified.

Operator

[Operator Instructions]

Claire Kane
Crédit Suisse AG, Research Division

It's Claire Kane from Crédit Suisse. Two questions, please. Firstly, could you update us on the initiatives you're doing in the Investment Bank, the RWA reallocation are quite specific about some of the revenue uplifts you're hoping for there? And then secondly, on the capital return policy. I guess the 6.5p is bringing you back closer to historical payout level, which was close to around 40% of earnings. But can you just comment on the ambition to return surplus capital through buybacks? Is that dependent really on settlement of outstanding litigation over [PPHA]?

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

Can I do the second, you do the first.

Tushar Morzaria

Group Finance Director & Executive Director

Okay, yes, so I'll cover RWA and Jes can talk more about distributions. In terms of where we are on reallocating RWAs within the Corporate and Investment Bank, we made good progress. And it's had, I guess, 2 positive byproducts, really. One is, of course, when we're looking hard at the areas of our corporate loan book that isn't earning its keep and being transparent with the clients, one of the positive byproducts is we actually get some more business from those clients in the corporate sort of banking line, which we like a lot. And of course, 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 activity. And that's going well. I don't want to give a percentage on it. It's sort of an ongoing discipline that we have in place. But progress is good and yielding good results. So we feel very good about that.

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

In terms of the buybacks, so you saw us move to 6.5p. You know what that was, was Tushar and I sit up here on March 1, 2016, and we cut the dividend from 6.5p to 3p in order to accelerate Non-Core [indiscernible], which we did last year. And really, what Tushar and I want to do is, when we say something to our analysts, our shareholders, we deliver it, so we build that credibility. And 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 U.S., or what you heard the last -- in this week around -- about U.K. banks, in part because of the role of stress testing, I think you'll increasingly see across the industry buybacks play a role in returning capital. And if you look at Barclays, specifically, given where our stock is, for sure, the economics around the buyback program are quite compelling.

Yes?

Fahed Irshad Kunwar
Redburn (Europe) Limited, Research Division

It's Fahed Kunwar from Redburn. Just two questions. The first one is on your kind of group NIM. There's few moving parts, so U.K. Retail from 3 30 to kind of 3 20. But then you have a mix shift towards U.S. Cards. You have your wholesale funding rolling off, you said a 60 basis point benefit in BI. And also, you have rate rises coming through as well. Just kind of how do we think about all of those factors in the NIM? And then also, what rate rise assumptions do you have in the U.K. 3 20 comment that you made? And the second question is on Barclays U.K. You talk about getting the cost income below 50. Lloyds yesterday talked about low 40s, it's a similar-ish bank in the U.K. Could your ambition be perhaps even bigger than that and move more towards that lower 40s rather than getting it below 50?

Tushar Morzaria
Group Finance Director & Executive Director

For the NIM. Yes, so your group NIM for -- [exactly] as you laid out, it's quite tricky to think of group NIM as sort of blended number because of the various [indiscernible] parts of it the way you sort of went around house in some ways the U.K., CC&P and then our sort of weighted average funding cost is the right way to think about it. Starting with the U.K., somewhere around the 3 20 feels about right. We don't -- 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. And the backdrop, of course, is asset margin pressure is still pretty competitive, and we'll see if that remained. So there are sort of 2 sort of forces going on there. We actually feel pretty good with the way our NIMs held up in light of that asset margin pressure. And we've only really had the 1 rate rise, and I think most U.K. 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, grown our mortgage book in what does feel like a very competitive market. So we're operating in a part of the mortgage business that we like a lot, and it's very accretive to our business.

In terms of CCP and the U.S. Card business, yes, we have moved away from sort of very low end of credit, parts of the credit portfolio we, had that very low credit-rated assets. And you can see that the parts of the book that are growing well. Things like American, JetBlue tend to be more prime-oriented 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 as much by growth. Our weighted average cost of funding, it does appear that as we look at it today, it's very attractive to refinance our wholesale debt at these levels. We did a HoldCo year or senior earlier in this year, and I think it was tighter 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 expenses, the way the 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, yes, look, below 50% is where we're targeting. We feel really good about that. A couple of things that I think are important when you sort of 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 the -- we have a Card business that's helpful in that regard. The other thing is the loan-to-deposit ratio. We do run a relatively conservative loan-to-deposit ratio where we have a very strong liquidity position. But if we took that loan-to-deposit ratio to over 100%, which some of our peers do, of course, that'll be very accretive to the cost-income ratio, but gives you a sort of a different risk profile. So it's another thing to probably look through when we compare ourselves to peers.

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

That's a good one to model.

Fahed Irshad Kunwar
Redburn (Europe) Limited, Research Division

So on the U.K., there's no rate rise assumptions for the 3 20?

Tushar Morzaria
Group Finance Director & Executive Director

Yes, so I'll start. I'd be a little bit cautious about if there was a rate rise we're off to the races because there is downward pressure on the asset side, so I think we'll balance the two together. And I think if the rate rises and we can capture them, great.

We'll switch here, Alastair?

Alastair William Ryan
BofA Merrill Lynch, Research Division

Alastair Ryan from Bank of America. Following up on that, the NIM. In U.K., you've got a balanced business in the end, and you've also got choices there, whether you invest in the U.K. or elsewhere. So how do you think about growth opportunities? The consumers are over geared, but economy is pretty good, money is 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 you and where the growth is versus you could spend -- you could give the money back to shareholder instead [indiscernible].

Tushar Morzaria
Group Finance Director & Executive Director

Well, look, we do like the U.K. business a lot. We have been probably a bit more cautious than some of the larger U.K. lenders, yes. And what that's really meant for us is we just stick to the business we know well and concentrate on that, and therefore, you can see sort of growth in mortgages. If you look at our disclosure, you get a chance, Alastair, to look at our results in that. You'll see our mortgage production is still in the sort of low 60s loan-to-value even though we're growing the business. So you see our name hopefully as a branding matter out there, but the business that we're printing is very much in our sweet spot, and we haven't changed that risk appetite for some time. I'll tell you we're probably more biased towards a secured credit rather an unsecured credit just 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, is relatively low risk-weighted asset density. And even if we were to grow our unsecured book, it's taken us 50-odd years to get to the sort of receivables that we have, and it takes a long time to grow that business. So we don't feel very capital-constrained in terms of wanting to grow that business. So hopefully that gives you a sense of how we think about it.

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

All I'll say is the largest beta exposure of Barclays is to the U.K. economy and to the U.K. consumer. Right now, we're doing very well. Impairment is at a very manageable level, profitability is at a very acceptable level. But that's where I think we want this, particularly given things like Brexit, to be conservative on the underwriting standards. I mean, 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 U.K. underwriting standards, both secured and unsecured. I think the trade we did in the U.S. Cards business early on in '17, the dropout of the lower part of that portfolio in hindsight was terrific. So I think we are trying to blend conservatism in our conservative portfolio with the high returns that we're getting right now.

Tushar Morzaria
Group Finance Director & Executive Director

Jon?

Operator

[Operator Instructions]

Jonathan Richard Kuczynski Pierce
Exane BNP Paribas, Research Division

Two questions, again. Jonathan Pierce from Exane BNP Paribas. The first one just on the U.S. Card book. Since the sale of that portfolio earlier last year, the delinquencies have gone up by about 40 basis points, 30-day plus arrears, and that's despite about 15% growth in the books. So could you just talk a little bit to the credit trends in that portfolio? The second question, it's going back to this bullet point, this is the first time I've seen it in Jes' slide on the 60 basis points potential benefit in International, I mean, your total wholesale funding is GBP 157 billion, I assume most of it is in International, so that sounds like we're talking sort of GBP 700 million, maybe GBP 800 million worth of uplift in revenue from that. So could you give us a bit more detail on that? Because clearly, we can identify the RCIs, but that's nothing like GBP 800 million. Is that just debt-accounted instruments as well? Or are you including some of the equity-accounted or the one U.S. pref, in particular, that's outstanding. So a bit more detail on that would be helpful because it's a big number.

Tushar Morzaria
Group Finance Director & Executive Director

Sure. So I'll do the -- yes, you want me to do it? Okay, on U.S. Cards and Credit trends, yes, we were very glad we exited that lower-rated portfolio. We got out at approximately par, actually slightly above par. But if you look at the delinquencies on that book, that was good timing, so hats off to the business for timing that very well. A very good transaction. There are different parts of that portfolio. So the airlines, whether it's Alaskan, Hawaiian and JetBlue, and those guys are growing well. And we also have parts of the portfolio that won't nearly be as prime as, for example, the Apple portfolio. And that mix, we like a lot. So it gives us the right mix of yield but a lot of the right risk characteristics. So although we're watching credit conditions carefully, we're not at all really concerned by them at this stage. But if -- look, it's something. It'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 U.K. and the U.S., to be appropriately sort of managing the risks around them. So it's something we're very mindful of, but not concerned as yet. We'll keep a close eye on it.

In terms of the weighted average funding costs, yes, think of that as term wholesale funding. Now don't think of that as, tomorrow morning, I'm going to refinance GBP 150 billion or 60 basis points cheaper and off we go. It's really the -- if spreads stay where they are, and we continue refinancing as we've done, we are able to refinance it at a lower levels. And we do a decent amount of refinancing over the course of the year, we still got some MREL to issue as well, and that's at very attractive levels. So it's yet, I guess, another [wind]. When we look at our returns objective, it's just yet another, at today's spread levels, a nice tailwind that we've got going for us. And it'll be what it'll be over the quarters and years to come.

Jonathan Richard Kuczynski Pierce
Exane BNP Paribas, Research Division

Sorry. Can I just ask then what that 60 basis, the actual number you're applying that to within International? We can see at the group level, how much is term fund?

Tushar Morzaria
Group Finance Director & Executive Director

Yes, look, we haven't disclosed that so I won't throw it out here. But you can -- you're right to point out there is MREL of course in the U.K. bank so it's not just deposit funded. As time has gone by, we need to carry a decent amount of MRELs. And you'll probably get a good sense of the U.K. division as well as U.K. or bank [indiscernible]. You probably could back into what the wholesale funding is effectively in BI 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.

Okay. Yes, Ed?

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

We have 2 mics here, right?

Edward Hugo Anson Firth
Keefe, Bruyette & Woods Limited, Research Division

It's Ed Firth here from KBW. Can I just bring you back to the capital question because I guess we've all picked up the sort of tone of your statement, which is clearly that you feel that we're approaching the land of plenty, if not there already. And I guess, just going back to Martin's comment, I mean, if I benchmark you really against any of your peers, I think you've got the lowest Core Tier 1s in the U.K. If I look at your slide, I think it is Slide 12, it looks to me like you're suggesting you generated about 4, so it's Slide 15. You generated about 4 basis points of underlying capital in Q4, and yet then on top of that, we've got U.S. RMBS. Your PPI is lower than a number of people, you might need to top that up. You've got the IFRS headwinds. So I'm just trying to square the sort of tone of your comments that are so specific with when I look at the numbers, it doesn't seem to quite bear that out in quite the same way. So what am I missing, I guess, in that analysis?

Tushar Morzaria
Group Finance Director & Executive Director

Yes, look, 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.

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

Ex litigation issues.

Tushar Morzaria
Group Finance Director & Executive Director

And that's after everything. We've cut PPI reserves, FX-related reserves and various other things going through

[Audio Gap]

organic capital that we create through profit generation. If you accept consensus forecast of EPS for '20, so let's say, '19 or even 2018, and put that into basis points for CET1, you'll get over 100 points of CET1 just on consensus number in terms of organic capital generation, notwithstanding we still got some tailwinds from Non-Core and Africa and various other things that we -- you'd expect us to manage. So every which way I look at it is there's enough capital generation in the company to support the distribution that Jes has talked about to finance growth in the areas that we'd like to prioritize, which aren't hugely capital-consumptive, and 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.

Edward Hugo Anson Firth
Keefe, Bruyette & Woods Limited, Research Division

So I guess -- so from your perspective, if I look at Slide 15, the 4 basis points you think is a unusually low number for Q4?

Tushar Morzaria
Group Finance Director & Executive Director

Yes, look, our Q4 is seasonally low in terms of -- because the bank levy goes in, in a single quarter so you always have that. If you want to really look at it quarter-by-quarter, you should probably average out the bank levy. And there are other things that'll happen from time to time. If you see that our capital ratio, I think I'm probably going to get this [off], IR will correct me here, but I think 11 after the last 13 quarters or something like that 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, every single year.

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

And look at the capital growth in the fourth quarter against the tax hit, against the conduct charge of some [GBP 200 million]. We took a lot of headwinds, still a good 13.1% to 13.4% yes?

Alvaro Serrano Saenz de Tejada
Morgan Stanley, Research Division

Alvaro Serrano from Morgan Stanley. I mean, you referred to and it sounds like it's pretty important to get to result of the litigation, legacy litigation, to be able to contemplate share buybacks. We've seen 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? So it does feel like it's a bit long dated, that aspiration. And second, also related to that, on IFRS9, and given your consumer books, so what kind of scenario -- we're going to Brexit, of course,

[Audio Gap]

Tushar Morzaria
Group Finance Director & Executive Director

It was probably around the time of the first quarter results, which will give you more disclosures to help you model that. But it's probably a bit early to start throwing out sensitivities and things like that.

Should we go to Chris? And then I'll just -- we're sort of going around again, so I'll just go to the phone to give people a chance.

Chris?

Christopher Cant
Autonomous Research LLP

It's Chris Cant from Autonomous. I have two, please. And just wanted to circle back on your comments about the low loan-to-deposit ratio and the ring-fenced bank. One of your large peer is in a similar situation on loan-to-deposit and ring-fence density. They 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 loans deposit there? Obviously, you're not going to be able to deploy that excess funding elsewhere in the business going forward. And secondly, if I return to Slide 11, you give us some sense of differential in FX headwinds across the different lines or businesses within the International business. You said that markets is, so far, trending up in sterling terms, but that's relative to a pretty soft 1Q comp last year. It was a bad print last year. And 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 International business. So it's a bigger headwind in equity, bigger in IBD, 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
Group Finance Director & Executive Director

Yes. So on loan-to-deposit ratio, yes, we've probably been -- I can't remember all the peers' disclosures, but I imagine that we're towards the low-ish end of the peer range on the loan-to-deposit ratio. Look, 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, I don't know, 110%, 120%. I don't think you'll see us do that. We do get very good deposit growth. You've seen that we grew deposits over the course of the year even though rate rises happened, so that helps manage our LDR. And we quite like the LDR somewhere around 100 or below is probably where we'd feel comfortable running it, and we'll keep you updated on that.

With regards to foreign exchange sensitivities, yes, the mention that Jes made was on the entirety of the market's income, so FICC and equities. It wasn't just a comment around FICC. And you're right, we are -- half our income in the International businesses does come in U.S. dollars, and so hopefully 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. That's about half of our income and about 40% of the profit for the group, and FX rates will be what they'll be.

Shall we just go around the room again, but just pause and see if there's any questions on the phone? I'm saying there aren't any, but just to give anyone a chance. Anybody on the phone wants to ask a question?

Operator

We do not have any questions registered on the telephone.

Tushar Morzaria
Group Finance Director & Executive Director

Okay, we'll keep going in the room then. So before I come to you, Michael, let's give someone else a go.

Robert Noble
RBC Capital Markets, LLC, Research Division

It's 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. Is this -- 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 clawing that out through 2018? Or is the income effect for Non-Core assets small enough that it's going to be negligible going forward? And just a quick clarification on capital. In capital stack, you've used the 50 basis points, you see why it's being countercyclical buffer? And your 13% target can absorb the 1% level as well within the management buffer? Or would it drift higher on that?

Tushar Morzaria
Group Finance Director & Executive Director

Yes. So on both the Non-Core, yes, the trend is floating downwards for sure. It wasn't significant in the fourth quarter to the extent -- I mean, somewhat driven by markets and what have you, so it's very hard to predict precisely quarter. But to the extent it is significant, we'll sort of call it out where it's necessary, but I think you'll expect to hear less and less from 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 countercyclical buffer, 50 basis points, for us, that's the 100 basis points translated to what impacts the Barclays Group. Because of our U.K. bank in terms of the size of the U.K. bank relative to the whole group, it translates to a 50 basis point effect for the whole group, so that's effectively assuming a 400 basis points as is supplied by the [SEC] banking and PRA.

All right, Michael. Sorry.

Michael Francis Helsby
BofA Merrill Lynch, Research Division

It's Michael Helsby again from Bank of America Merrill Lynch. Just two follow-ups, if I can. Firstly, just listening to -- about the comparison to Lloyds, obviously, the big difference is the SVR book that they've got, which you didn't mention. I was just wondering a couple of things. Firstly, if you could just update us on what your SVR percentage is. Also, you've got some legacy trackers, which are very, very low yielding, I was wondering if you could let us know what the percentage of that is still in the book? And then to wrap that up, what were the -- if you will give us, this will be great, what the back book yield is? And how that compares to where you're pricing front book at the moment? And then just as a broader question, again, we heard a lot from Lloyds yesterday about the future with Open Banking, and they think that they're going to be a significant beneficiary of this increased competition. As the market leader, I'm kind of a bit skeptical about that, but I was just wondering what your perspective is? And how you see Open Banking in that? Or whether you see this as an opportunity to take share?

Tushar Morzaria
Group Finance Director & Executive Director

Yes, all right. On the mortgage, for the fun facts, I don't have to my fingertips the exact specs. The SVR business portfolio is pretty small, and we don't call it out because its -- I mean, 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 SVR benefit -- the reverse of that is probably what's going on. In Barclays back book, we have a higher proportion of legacy trackers that are very low yielding, and unfortunately, very small book of high-yielding SVR. So what that does do, of course, is that even at the sort of competitive mortgage pricing and our 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, we -- you see our name in all sorts of different products, but the production that we do is in our sort of home products, if you like. We still very much prioritize remortgaging and low loan-to-value business, et cetera. And so even at those relatively low yields because the risk is relatively low, we still like the business relative to our back book yield. So it still is accretive effectively.

And Open Banking, look, we run -- we'll see, one of the things I think that we've done a really good job in the U.K. 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. We -- the production that we have in consumer loans and personal lending is probably higher through our app and simpler through our app than we believe some of our competitors, we've got an API store out there that allows other retailers and other providers to connect to Barclays in a very safe and secure way. It's a little bit of this trend that we have. 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 center, et cetera. The API store allows the bank to find you in some way, so you can sort of plug into where you're doing your business at the moment and transact through Barclays there rather than having to go and find us. So we think we're well -- I'm sorry?

Unknown Analyst

[indiscernible]

Tushar Morzaria
Group Finance Director & Executive Director

Yes, yes. Well, yes, absolutely. APIs [indiscernible]. I mean, it's not an Apple, but it's like the Apple's App Store kind of thing but for Barclays. And so we're already doing that. And we do feel that there is an opportunity set for us for those that are very progressed around that digital channels. I still think there's something about big U.K. 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'll 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 safe and for the awareness and stuff like that. I mean, the market reception we're getting back on that is that really resonates with customers. And so, therefore, I do think there's real opportunity for the big banks to perhaps be the aggregators, and I know other banks are thinking along that as well. I guess we'll see. And we would -- were that to be the case, I would definitely back our chances to be a net beneficiary from that, but yes, we'll see.

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

Yes, I think if you think about it is the FinTech company is an innovator looking for a scaled distribution platform. With 10 million consumers today touching Barclays either with a smartphone or over the internet, and 24 million customers in the world, we have plenty of scale looking for innovation. And I think Ashok and his team where we are, are generating innovative products at a rate that Open Banking actually, I think, could be a competitive advantage for large banks.

Raul Sinha
JP Morgan Chase & Co, Research Division

It's Raul Sinha from JPMorgan Cazenove. Maybe one on detail and one sort of broader question on the IB. Tushar, if you look at Slide 36, the rate sensitivity, which you've been very helpful with in terms of the analysis on year 1 to year 3, seems to have gone down a little bit from the last time we 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. And I guess the broader question, maybe for Jes, is I guess if you look back on these results, it looks like the IB has obviously 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, I guess. So I just wanted to ask you as to, one, do you think the IB is now fully reflective in terms of all the investments you've put in? Or is there sort of more to come? And what do you think are the 3 areas really kind of driving, let's say, the lack of underperformance?

Tushar Morzaria
Group Finance Director & Executive Director

Yes. So we'll [approach it], then I'll hand over to Jes on IB. The rate sensitivity and really the purpose of that slide, and I wouldn't get too much into kind of the prediction of what's going to happen. Of course, it's probably precisely what be -- what won't happen, it's a 100 basis point parallel shift in the curve. And taking assumptions on terms of how much short-end rate rises, if you do get 100 basis points [simply] pass-through, giving you a low end and a sort of high scenario. Has some assumptions around what the long-end [indiscernible] rolled into in terms of refinancing that yield curve was different from where we were to where it is now, our funding profile and everything is a little bit different. And also had some assumptions around, of course, as rates back up, we would expect some of that balance to become more rates

[Audio Gap]

to perhaps on the precision around those numbers. If we do get the number of rate rises and get anywhere near 2%, it's a good environment for us to be, assuming the economy is healthy, that's really the point we wanted to make.

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

To the larger question, as Tim and I have talked about -- to course correct the CIB, it's people, it's technology and balance sheet, not RWA. And now I think we've started that journey. We've hired the senior team for that business. Technology, we're in early stages, but we've had some good wins. We launched our interest rate swap [indiscernible] and platform in August of last year in the U.S. and just now in Europe. In U.S., our market share in Tradeweb, which you can track for clearing [indiscernible]

[Audio Gap]

0.7% when we launched this thing, we're now over 10%. And that has a knock-on benefit of doing other rates trading with our other clients. And there's more technologies to roll out. Still got a ways to go, but I think we feel pretty good to have the journey just begun.

Tushar Morzaria
Group Finance Director & Executive Director

We'll take a couple of questions, and we'll...

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

Well, Just one more, I think.

Tushar Morzaria
Group Finance Director & Executive Director

Okay. We'll just take one more question, and [then I do think] we need to pack up.

John Cronin
Goodbody Stockbrokers, Research Division

Okay. It's John Cronin from Goodbody. First question on the risk-weighted assets inflation outlook and how you would guide around that [indiscernible], particularly given the engagement with the PRA in that context? And on a medium term, do you feel [indiscernible]? Second question is in relation to the -- in relation to your credit [indiscernible] arrears which improved in 4Q. So anything you can call on out there in respect of those trends would be helpful.

Tushar Morzaria
Group Finance Director & Executive Director

On the U.K. Card, the -- so the delinquency is just nudging down slightly, flat to down. There's nothing more I can call out. I mean, it still feels like a early, benign credit environment as best as we can see it in consumer credit.

[Audio Gap]

rule changes. Yes, I mean, obviously, the big thing on the horizon, but quite some way out, is Basel IV, so to speak. It's a pretty comprehensive package of -- whether it's operational risk, output [flows], standby risk weights and what have you. It'll be several years before that comes in, and thus, obviously, there'll be some discussion applied to national regulators as they come and adopt that. So I think it's just a bit too early and a

[Audio Gap]

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

James Edward Staley
Group CEO, Interim CEO of Barclays Bank Plc & Executive Director

Great. We'll do a couple of questions outside, but thanks a lot, everyone.

Tushar Morzaria

Group Finance Director & Executive Director

Okay. Thank you.

Operator
Ladies and gentlemen, that does conclude the analyst and investor conference Call. This call has come to a close, and you can now disconnect.