Company Name: Barclays
Company Ticker: BARC LN
Date: 2018-04-26
Event Description: Q1 2018 Earnings Call

Market Cap: 35913.2007486
Current PX: 210
YTD Change($): 6.8
YTD Change(%): 3.346

Bloomberg Estimates - EPS
Current Quarter: 0.057
Current Year: 0.2
Bloomberg Estimates - Sales
Current Quarter: 5499.5
Current Year: 21719.313

Q1 2018 Earnings Call

Company Participants

- James Edward Staley, Group CEO & Executive Director
- Tushar Morzaria, Group Finance Director & Executive Director

Other Participants

- Andrew Philip Coombs, Director
- Christopher Cant, Partner, United Kingdom and Irish Banks
- Claire Kane, Research Analyst
- Edward Hugo Anson Firth, Analyst
- Jason Clive Napier, MD, Head of European Banks Research. And Bank Research Analyst
- Jonathan Richard Kuczynski Pierce, Analyst of Banks
- Joseph Dickerson, Head of European Banks Research & Equity Analyst
- Martin Leitgeb, Analyst
- Michael Francis Helsby, MD and Co
- Robin Down, Co
- Thomas Andrew John Rayner, Executive Director for Equity Research & Analyst of Banks

Presentation

Operator

Welcome to the Barclays Q1 2018 Results Analyst and Investor Conference Call. I'll now hand you over to Jes Staley, Group Chief Executive; and Tushar Morzaria, Group Finance Director.

James Edward Staley, Group CEO & Executive Director

Good morning, everyone. And thank you for joining this First Quarter Earnings Call.

2018 is the first year in the last 5 where Barclays begins with a clean operating model. Our strategy is focused on improving profitability and increasing cash returns to our shareholders over time. And the performance we have reported today shows another quarter of successful execution against that strategy.

Excluding litigation expenses, our transatlantic wholesale and consumer bank produced in the First Quarter a group return on tangible equity of 11%. Within that trend, both of our operating businesses delivered double-digit returns, with Barclays U.K. at over 15% and Barclays International at over 13%. Barclays U.K.'s underlying performance has been solid in this quarter. We grew our mortgage book by nearly GBP 1 billion and have strong ISA season with flows up around 35% year-on-year.

Income is down, however, driven by non-repeating items including the Visa gain recognized in the First Quarter of '17. And a remediation charge which was booked in the quarter.

We chose to increase investment in our leading position as a digital bank including in core technology enhancements and customer journey optimization, as well as expenditures on our branch closures.

While the asset side of the business in mortgages is exposed to margin pressure, our NIM held up very well in the quarter at 327 bps. And our strong position in deposits should benefit us as interest rates rise.

We were also delighted to be the first of our peers to successfully stand up our ring-fenced bank on the 1st of April. So nine months ahead of regulatory deadline to do so. This was an enormous undertaking, effectively creating the largest de novo bank in this country's history. And the thousands of colleagues who made that reality deserve great credit. Both businesses within Barclays International, Consumer Cards and Payments and Corporate and Investment Bank produced double-digit returns in the First Quarter. Specifically, the Corporate and Investment Bank had a return on tangible equity of 13%. And this offset somewhat weakened profitability in the US Cards business in the quarter which was a result of prior year one-offs and planned increased marketing spend.

Within the CIB, our Markets business delivered a particularly strong performance, gaining market share for the Second Quarter running. This performance in Markets is not just a product of market volatility, it's also a result of new management now in place, the technology investments that we are making and the operating leverage that we have driven, now evident in 2 consecutive quarters. Those improved returns are also in large part due to the success of our redeployment of low-returning corporate lending risk-weighted assets to better returning clients and products.

In the second half of last year, we reallocated some GBP 10 billion of risk-weighted assets from parts of the corporate loan book where it was earning single-digit returns to our Markets business across credit, macro and equity financing. And all of these businesses and Markets produced returns comfortably above our cost of capital.

In aggregate then, the story of this quarter is one which clearly demonstrates both the powerful earnings potential of the bank post restructuring and the benefits of the diversified model we have built. It shows that momentum is building and reinforces our confidence in meeting our group RoTE targets of greater than 9% in 2019 and greater than 10% in 2020, based on a CET1 ratio of around 13% and excluding litigation and conduct. Of course, the First Quarter is seasonally strong. But I am encouraged that we are seeing progress in the areas which will bridge the gap to sustainably deliver those targets in 2019 and '20.

As I have said before, half of the improvement on our full year 2017 performance to reach our 2019 target will come from cost reductions, a decrease in legacy Non-Core drag and better balance sheet efficiencies as funding costs improve as we retire expensive legacy debt. The other half is expected to come from additional top line growth, spread roughly evenly between our consumer and wholesale businesses.

On the consumer side, we expect US Cards to continue to do well.

JetBlue customer balances have more than doubled in size in the two years since we acquired that portfolio. And our American Airlines partnership balances also continue to grow well. Initial takeup of the Uber card since its November launch is encouraging.

Over the next few years, we are projecting annual growth in total receivables of around 10% across co-brand and our own brand cards in the U.S.. And we are investing in the business to capture that opportunity.

Barclays U.K. will also target growth organically. And particularly in mortgages, though we will remain focused on driving attractive returns rather than chasing market share.

We will continue to enhance our leading position in digital banking to further enhance returns. And you will have seen that yesterday we announced a groundbreaking partnership with PayPal, both here and in the U.S., which will see their technology integrated with our award-winning mobile banking app and other digital assets.

Finally, modest improvement in our wholesale business is expected to be the last piece of the puzzle. We now have the leadership in place and technology investment underway to drive performance in our Corporate and Investment Bank. And we are reallocating capital and balance sheet more productively. This has self-evidently been a good quarter for the Investment Bank. And what is important now is to ensure the sustainability of the improvement we're seeing and we're confident that we can.

Reinforcing all of this, we are also benefiting from 2 significant tailwinds, a higher interest rate environment and U.S. corporate tax debt. As I said, we have a clear path in our mind for how we get to our RoTE targets. And this quarter represented a positive step down that path.

Another very significant piece of progress in the quarter was the agreement we reached with the U.S. Department of Justice to resolve issues related to the sale of residential mortgage-backed securities between 2005 and 2007. While the penalty was substantial, the settlement represents a major milestone for Barclays, putting a huge matter behind us which has hung over the bank for years. The fine we paid, together with the PPI provision, did impact capital by some 60 bps. And combined with seasonably higher risk-weighted assets, this means that we have printed a CET1 ratio of 12.7% for the quarter. However, given the earnings power of the group and our strong track record in capital management, we are confident that we can be back at around 13% in good time. Crucially, it remains our intention to pay a dividend in 2018 of 6.5p. And we look forward to returning an increasing amount of capital to shareholders, both through the annual buyback and via other means, such as stock buybacks.

It's been a challenging few years for Barclays. We've had to actively make some difficult choices and engage in some formidable restructuring. Through Non-Core, we eliminated some GBP 95 billion of risk-weighted assets, mostly in the Investment Bank, disposed of more than 20 businesses and exited operations in a dozen countries. And we have reduced costs since 2013 of some GBP 6 billion. Today, we have a portfolio of diversified, profitable businesses, a clean operating model, a good capital position. And we have eliminated most of our major historic litigation issues.

Barclays U.K. and Barclays International have both produced attractive double-digit returns. And excluding litigation and conduct, this has actually been the highest quarterly return on tangible equity for Barclays in over four years. I'm therefore feeling positive about where we are today and for our prospects of continuing to execute successfully on the strategy we set out in March of 2016.

Now let me pass to Tushar to take you through today's results.

Tushar Morzaria, Group Finance Director & Executive Director

Thanks, Jes. Our Q1 results represented a major step forward, achieving our objective of double-digit return for the group, as we reported an 11% group RoTE, excluding litigation and conduct. Importantly, during the quarter, we resolved a very significant outstanding conduct matter, the DOJ RMBS investigation. This resulted in a provision of GBP 1.4 billion in the Q1 results. And we also took a further provision of PPI of GBP 400 million, taking the remaining provision to GBP 1.7 billion.

In order to help you better understand the trends, we've included a slide in the Appendix with these material items and other items of interest, which I'll reference as I go through the results.

In income, there's some negative effects from the non-recurrence of the one-offs of GBP 290 million highlighted in Q1 last year, mostly in BI. While in costs, we have a reduction of around GBP 50 million in SRP spend and a small positive effect from the compensation changes introduced in late 2016.

The statutory attributable loss for the quarter included litigation and conduct provisions totaling GBP 2 billion, which are largely non-tax-deductible. So the attributable profit excluding these was GBP 1.2 billion, generating earnings per share of 7.1p.

The RoTE was in double digits for BI and also for BUK excluding litigation and conduct. And I would note that the CIB reported a 13% RoTE.

Despite the Head Office drag, overall group returns were also in double digit, excluding conduct. Q1 does tend to be seasonally strong. But the benefits of our diversification are showing through in the group returns.

Income was down 8% overall, principally reflecting the non-recurrence of those one-offs in Q1 last year and the effect of the weaker dollar. Impairment was down 45%, reflecting single name recoveries in corporate lending and the effect of improved consensus economic forecasts, principally in the U.S.. But we see underlying credit conditions as broadly stable.

Costs, excluding conduct, were down 6%, largely reflecting reduced costs from former Non-Core and the currency effect. More importantly, we have continued to drive cost efficiencies, creating capacity for reinvestment.

The group cost-income ratio, excluding conduct, was 63%.

The role of the ServCo, which we have named Barclays Execution Services or BX, is critical in driving these efficiencies.

The key step in our ring-fencing was completed on the 1st of April, with the transfer of assets and liabilities into Barclays Bank U.K. PLC.

PBT excluding conduct was up 1% despite currency headwinds.

The effective tax rate reflected the reduction in U.S. rates implemented at the start of this year. And in addition, the group return benefited from a couple of small one-offs mainly in Head Office. But we are still guiding to a mid-20s ETR for the year overall. At the end of 2017, we reached a CET1 ratio of 13.3% and said that we intended to maintain the ratio above 13%, pending resolution of key outstanding conduct issue. The resolution of RMBS has now taken the ratio to below 13% temporarily. But we remain confident in our capital generation and intend to pay a 6.5p dividend for 2018, subject to regulatory approval as we focus on increasing capital returns to shareholders over time.

Looking at the individual businesses now, starting with Barclays U.K. BUK reported an RoTE, excluding conduct of 15.7% in Q1. Income decreased 3%, reflecting 2 one-offs, non-recurrence of GBP 24 million of the Visa gain from last year and remediation charges. Excluding these, income was broadly flat.

NIM for the quarter was 327 bps, down year-on-year due to the inclusion of the ESHLA loan. But only slightly down on Q3 and Q4 and within our guidance range.

We continue to exercise pricing discipline while growing our mortgage book, adding close to GBP 1 billion of net balances at margins which still earn an attractive RoTE, adding to the GBP 3.4 billion in the second half of last year. This growth is not just about pricing nor a shift in risk appetite. We continue to focus on our key processes such as our time to offer for residential mortgages, which now averages 10 days across all channels, with significantly lower figures for non-broker mortgages.

Our guidance for full year NIM remains in the 320s. And where we land within that range will depend on whether we see further rate rises before the back end of the year as well as the competitive environment.

Digital engagement among customers continues to have record levels with over 10 million digitally active customers, up 6% year-on-year. And around 15% growth in active users of mobile banking. And we're very excited about the PayPal deal, which Jes mentioned.

Impairment increased by GBP 23 million. This included a single name in business banking. But we view underlying credit metrics as broadly stable. For example, in cards, 30-day and 90-day delinquencies were flat year-on-year at 2% and 0.9%. We continue to spend on the implementation of the U.K. ring-fence but that will drop off following the launch of the ring-fenced bank on the 1st of April.

We remain focused on cost efficiency, allowing reinvestment in areas critical to the evolution of the business, notably cyber resilience and digital. Overall costs excluding conduct were up 5% year-on-year, resulting in a cost-income ratio of 56%. But our aim remains to take the BUK cost-income ratio to below 50% over time, as ring-fencing costs drop away and further cost efficiencies including our ongoing investment in digital come through.

Overall BUK continues to have strong market positions across most products. And we are able to exercise pricing discipline and prudent risk appetite while still delivering attractive returns.

Turning now to Barclays International. BI delivered a Q1 RoTE of 13.6%., excluding conduct, with both CIB and CCP contributing double-digit returns. With around half of BI businesses being USD-denominated, the 12% year-on-year decline in the dollar was a significant headwind to profits and income and a tailwind to costs and impairment. I won't keep repeating this. But please bear it in mind.

Income adjusted for the non-recurrence of the one-off gains which benefited Q1 last year was down 2%. Excluding the FX headwinds, income was up 5%. Impairment decreased significantly with write-backs and improved economic forecast principally in the U.S., while costs were down by 6%. The PBT increase of 4% was a good performance given the FX headwind.

Looking now in more detail at the BI businesses. The CIB delivered an RoTE of 13%. Although Q1 is typically a seasonally strong quarter, this was a very encouraging performance. Total income for CIB was up 1% to GBP 2.8 billion with Markets the standout performer. The Markets income benefited by just GBP 30 million from the legacy funding costs now reported in Head Office. And even allowing for this, we achieved solid income growth in sterling, despite the dollar headwind. I'll reference the dollar comparisons for each of the business lines for ease of comparison with U.S. peers.

Markets income in USD was up 21%. This reflected a very strong performance in equities, up 43% on Q1 '17. And good performance in FICC which was up 10%. As we flagged at full year, we've combined credit and macro to give a FICC number in line with peers. Equities improved performance significantly, in equity flow derivatives and equity financing in particular, where additional leverage capacity was used productively. Within FICC, FX performed particularly well. Rates and credit experienced lower client activity but we were able to improve revenue share in a number of areas, as Jes mentioned.

FICC income financing continues to be fiercely competitive but our franchise is developing well, building on our top 3 global ranking for full year '17. And returns remain attractive.

Although the banking performance reflects the lower levels of issuance year-on-year, we gained global fee share in Q1 compared to Q4 to reach 4.5% and reported our second highest quarter for banking fee income in sterling.

Corporate lending income was down as lending balances reduced, reflecting the reallocation of RWAs within CIB, while transaction banking was slightly up. Impairment was a net release of GBP 159 million compared to a charge of GBP 51 million last year. Just under half reflected a number of single name write-backs and the rest was largely the result of improved economic forecasts, principally for the U.S., which informed our IFRS 9 impairment. Absent further economic -- absent further improvement in economic forecasts, I wouldn't necessarily expect those factors to repeat. Costs were down 8%, principally reflecting those FX tailwinds, reduction in SRP costs and the reduced effect of the change on deferred compensation we introduced at the end of 2016.

We continue to create capacity to invest in the businesses in targeted areas and with the reallocation of RWAs from the corporate loan book into higher-returning areas. Of course, the RoTE of 13% benefited from the net release of GBP 159 million in the impairment line. But the RoTE would still be double digits without this.

Moving on to CCP. Net receivables in US Cards grew by 10% year-on-year in dollar terms. The American Airlines and JetBlue portfolios in particular have been growing well over the last few quarters and we have renewed a number of partnership agreements over the last year. So that around 70% of the partnership book is covered by agreements that last through to 2022.

The usual seasonal dip in Q1 marked the underlying growth. The income decline was 7%, excluding non-recurrence of the GBP 266 million of one-off gains last year. This reflected the currency headwind and the effect on income and disposal of a sub-prime portfolio in Q1 last year. Excluding these factors, income grew 6% year-on-year.

We saw a 10% increase in volumes of payments processed in the merchant acquiring business and secured a major contract with HMRC, which is expected to bring in significant volumes in the future.

Impairment charge is down 15%, reflecting the improvement in economic forecasts, mainly in the U.S., offset by balance growth and a modest increase in delinquencies. Despite this increase, we are comfortable with our risk mix and particularly following last year's repositioning towards lower risk balances.

Cost increased by 4%, principally reflecting business growth and investment, partly offset by currency tailwinds. And RoTE for the quarter was 15.6%.

Turning now to Head Office. Our Head Office result continues to be influenced by lumpy items, some of which are hard to predict. But are not significant to our long-term profitability.

We mentioned at full year that we would reflect some of the cost of legacy capital instruments in Head Office. This accounts for around GBP 90 million of the negative income in Q1. And this will continue while these instruments remain outstanding. There's also a technical charge from hedge accounting. This should come out in the range of GBP 100 million to GBP 200 million a year. But only for the next couple of years. There are other treasury items that are unpredictable quarter-by-quarter. But in summary I would expect negative income in the remaining quarters of the year. But not at the level we've seen in Q1. And a reduction over time as legacy instruments are redeemed and hedges unwind.

Costs in Head Office, excluding litigation and conduct, were GBP 59 million.

Although the attributable loss of GBP 192 million, excluding conduct, is a drag on group returns, the level of equity allocated to Head Office has been reduced significantly to GBP 3 billion at the end of the quarter as we are now allocating to the businesses based on a 13% CET1 ratio. It will remain a drag. But should be lower than in this quarter. And of course, there is the overall group returns that are our primary focus.

Next, I want to make a few comments on impairment and the effects of IFRS9 in particular. We knew in advance that because of the way IFRS 9 works, we would see some volatility in impairment charges, particularly as consensus economic forecasts change. While we have little change in the U.K. forecasts, we have had improvements in other regions, notably for the U.S., affecting our international cards and CIB businesses. It will take a number of reporting periods to illustrate how these sensitivities and other aspects of IFRS 9 feed through. But we will try to help the market by giving a qualitative commentary.

The overall impairment charge was down by GBP 239 million. This is despite steady underlying delinquency performance across most portfolios.

BUK charge was up 13%, partly due to a single name charge. Delinquencies were roughly stable and there were no material changes in consensus forecasts.

As I mentioned, the CIB reported a net impairment release of GBP 159 million compared to the charge of GBP 51 million in Q1 '17. This reflected some significant single name write-backs which we would not necessarily expect to repeat. And there was also the effect of improvements in economic forecasts, notably in the U.S. Absent further changes in economic forecasts, we would expect CIB to return to modest levels of impairment, driven by single name charges or recoveries.

In CCP, there's also some benefit from improved forecasts. This outweighed the effect of some underlying deterioration in delinquency trends. And we are feeling comfortable with our risk mix in the US Cards book. So while I'm not going to guide on the overall impairment charge, we would expect some of the one-off benefits reflected in Q1 to drop out. Absent clear improvement in economic forecasts, we wouldn't expect impairment build through the rest of the year to be at the Q1 run rate. If the forecasts deteriorate, of course, IFRS 9 is designed to pick up such deterioration earlier than previous accounting.

Before I finish with capital, I just want to add a few words on our cost trajectory. I've shown on this slide the 6% reduction on our Q1 cost base, excluding litigation and conduct. Cost efficiencies are providing the capacity to invest in growth areas. You can see that clearly in CCP, in particular. We continue to guide to 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%. We haven't given guidance for 2018. But would clearly expect a level below the 2017 outturn.

Moving on to our capital position. During Q1, we reached settlement with the DOJ on RMBS, which resolved the major uncertainty hanging -- overhanging our capital position. We also made a further GBP 400 million provision for PPI. So this quarter, litigation and conduct took a total of 61 bps off our CET1 ratio, more than offsetting our capital ratio generation of 42 bps from profit pre-dividends. We also increased RWAs by GBP 4.9 billion in the quarter and saw a 10-basis point headwind from the share awards that occur annually in the First Quarter. As a result, the CET1 ratio reduced from 13.3% to 12.7%. This is below our end-state target of around 13%. But given our capital generation from profit, we expect to return the capital ratio to around 13% over time. We remain comfortable that our capital flight path from here will satisfy our regulatory requirements and generate capacity for attractive returns to shareholders.

We've reiterated our intention to increase the 2018 dividend to 6.5p, subject to the usual regulatory approvals and stress test outcomes.

Our spot U.K. leverage ratio ended the quarter at 4.8%, well above our required level.

Finally, a quick word on TNAV. Of course, the RMBS settlement and PPI provision reduced TNAV in the quarter. TNAV was also reduced by the full initial effect of IFRS 9 of 13p, as we flagged at full year. And the reduction in the cash flow hedge reserve, which is excluded from CET1. The currency translation reserve also decreased but we hedge our capital ratio for currency moves. So we've seen a more significant TNAV reduction in Q1 than in capital. However, with these issues and the major restructuring of the group behind us, we can now focus on accreting TNAV through our profit generation, net of the return of excess capital to shareholders over time. And I would stress that we expect to achieve our returns target on a TNAV level that's clearly higher than today's level.

So to recap. We reported an 11% RoTE for the group, excluding conduct and litigation, with both BUK and BI contributing returns well above 10%. Although Q1 is seasonally strong, this puts us in a good position to deliver on our 2019 and 2020 RoTE targets of greater than 9% and 10%, respectively, based on a CET1 ratio of 13%. We reached a settlement with the DOJ on RMBS, removing a significant uncertainty that was overhanging the group.

Despite the capital ratio moving temporarily below 13%, we are confident that the outlook of our capital flight path will allow us to satisfy capital requirements and deliver attractive returns of capital to shareholders over time.

We have reiterated our intention to pay a dividend of 6.5p for 2018, subject to the usual approvals.

Thank you. And now we're happy to answer your questions. But I ask that you limit yourself to 2 questions please. So others get a chance, to get around to as many of you can we can. Thank you.

Questions And Answers

Operator

(Operator Instructions) Our first question today, gentlemen, comes from Claire Kane of CrÃ©dit Suisse.

Claire Kane, Research Analyst

So my 2 questions, firstly, on costs. So you haven't changed the '19 cost target given the FX tailwinds you have and given you are running down 6% year-on-year already and that target versus '17 is only minus 2% to minus 4%. I just -- I guess, I can appreciate the FX benefit will fade. But just really, could you give us some sense of are you going to be much at the lower end of that range? And also, what's the likelihood that you could actually come within that range for this year for '18? That's my first question. The second question is on the Consumer Cards and Payments business. How should we think about the revenue margins going forward? Would we expect your revenue growth to lag your 10% balance growth and for that to be compensated through lower cost of risk? And also, could you update us really on what your broader plans are in the U.S. payment space given the announcement with PayPal?

Tushar Morzaria, Group Finance Director & Executive Director

Yes. Thanks, Claire. Why don't I take the cost and touch on CCP and Jes may want to add on some of the -- as to what we're doing around payments. With cost, we're pleased with our cost performance. Obviously, we are benefiting from -- on the cost line, I guess, of stronger sterling, of course, as you guys are all aware. Unfortunately, a stronger sterling is less helpful to profits. So I wouldn't necessarily take that, in and of itself, as a positive and (must prefer) a weaker sterling. I think like as we've done in the past, Claire, we're going to give specific guidance for 2019, as we get into 2019 and we see what currency rates are prevailing then, we will moderate the objective accordingly. We've deliberately given a range of our cost outcomes for 2019 just struck at the historical rates. And the reason for that is. And I think this may be the solution to your question, if performance in our top line isn't as robust as we would like, then we would obviously have the opportunity to drive cost lower. But we are keen on ensuring that we keep a healthy level of reinvestment back into the company and you can see that across all of our businesses. Jes will talk a little bit more about sort of payments and PayPal. But you can see that in some of the consumer safety businesses that we have with card acquisitions. We talk about the automated processes that we have around mortgage approvals. On average, we're approving mortgages within 10 days now. And on broker-originated mortgages, it's substantially lower than that. We put some productive investments into some of our e-trading platforms. So we are keen on reinvesting back into the company by doing that, ensuring that our cost base is appropriately sized. And certainly, intending to have a cost-income ratio below 60% next year. In terms of CCP, very briefly, yes, as the J-curve of that business evolves, you would expect revenue growth slightly to lag receivable growth. But the businesses are growing well. For example, some of the airline accounts, whether it's JetBlue, Frontier, Hawaiian, American, these are really, really good accounts. So like JetBlue, I think, has doubled over the last couple of years. So you'll see those J-curves, if you like, complete and move back into more, if you like, consistent or, in fact, revenue growth even outstripping receivable growth. But it'll be a little while to come here. Jes, you want to have any points on...

James Edward Staley, Group CEO & Executive Director

I'm just going to give an add-on around the J-curve. We started the American Airlines co-brand in the First Quarter in 2017. You spend money in terms of advertising inside the airline. You spend money in terms of having very attractive sign-on reward programs. In the First Quarter '17, as we started, we acquired 30,000 new consumer credit card clients through American Airlines. By the Fourth Quarter of 2017, that was up to 120,000 in that quarter. So that's the growth rate that you can get. But it does require a marketing spend upfront and that's what gives you the J-curve. So it will be some time before revenues catch up with that 10% year-on-year growth rate in receivables. But you should expect that catch-up to accelerate as we go through the end of '18, beginning of 2019. Obviously, we're very pleased with the announcement with respect to PayPal, particularly here in the U.K. where we're connecting their payments platform into our banking app, which is I think, perhaps the strongest banking app across the U.K. connecting it to our mobile banking as well. We think this will be immensely beneficial to both PayPal and to Barclays, given the breadth of our 24 million consumers across United Kingdom and given, I think, their significant market share in the payment space. So I think that's reflective of a new approach across technology which is partnering. And we like this partnership with PayPal. In terms of the U.S., we are -- we have been incrementally increasing our digital bank. As you know, we gather a lot of retail deposits in the United States. And bringing in a relationship with PayPal, I think, opens up opportunities for us in the United States as we want to grow that consumer footprint.

Tushar Morzaria, Group Finance Director & Executive Director

Yes. Just one other point before we go to the next question that's worth just pointing out on your question around CCP and revenue growth. The other thing we look at very closely is just how jaws are performing as we grow that business. In Q4, jaws were broadly neutral. And I'm referencing here, obviously, local currency because FX rates move -- contract that a little bit. And jaws in Q1 were really only very slightly negative. So we're again being very cautious in ensuring we can grow that business but without experiencing adverse jaws. I hope that's helpful. We will take our next question, operator.

Operator

Our next question, Tushar, is from Joseph Dickerson of Jefferies.

Joseph Dickerson, Head of European Banks Research & Equity Analyst

For my 2 questions, I guess, the first one is on the hedge accounting that you called out in the Head Office and it seems like the Second Quarter in a row where the Head Office negative income has been quite material. And you're guiding to a further negative income in that unit. I guess, can you please explain in detail what precisely this hedge accounting drag is? And also, is it something new that cropped up because it hadn't been flagged before. So some detail there would be very helpful to think about, in particular the trend going forward. Then secondly, on the iBank. So there is a 64% cost-income ratio on the quarter in the Investment Bank. And obviously, Q4, there's some Q4 inflation related to the U.K. But is that a number we can think about going forward, obviously, subject to the environment remaining fairly okay? And on that, how much of the Investment Bank performance around that cost-income ratio, both on the cost side and the income side, relates to some of the specific actions you've taken around the balance sheet and committing capital to clients? And how much of it would you say is, I know it's always difficult to do. But obviously you spend a lot of time committing capital to customers over the past couple of quarters, now how much of the move in the Investment Bank is specific to Barclays and how much is market? That would be very helpful for us.

Tushar Morzaria, Group Finance Director & Executive Director

Yes. Thanks, Joseph. Why don't I cover the hedge accounting and just briefly touch on IB cost and then Jes can perhaps give you a bit more color on some of the drivers of our performance of balance sheet versus market share, et cetera. Yes, I mean, what might be helpful for you is in terms of you're thinking about where our Head Office may look over full year, I think there's only 2 items on the top line that I would call out there, one of which you probably already have in your model somewhere. But that's the legacy funding instrument that we reported now in Head Office. That will run, as we called out, about GBP 90 million a quarter while those instruments are outstanding. And if we want to retire those instruments, then that just drops out of the top line. The other component is hedge accounting which I know will be new to many of you. I mean, in simplest terms, hedge accounting is all to do with the relationships we have between fair value hedges and our sort of consumer or banking book businesses where we take the benefit of hedge accounting to show our P&L on a matched basis. When you break those hedge relationships, those built-up cash flow hedge reserves, we need to amortize back into P&L over time. And that's quite a technical accounting determination. On occasion, depending on exactly how those hedge relationships are broken, you recycle that P&L immediately. And on the other occasions where you're portfolio hedging, you have to recycle that P&L back over the life of the original hedge. And that's what we're seeing here. The reason why you may not have seen it in the past is that I guess we've got less and less in Head Office. So the sort of the puts and takes that you would otherwise have are just few. And really, it's only those 2 items that essentially are going through Head Office. I think for our full year, we guided to somewhere between GBP 100 million to GBP 200 million for this year and possibly a similar quantum next year. Now again, a part of this, they will reduce as obviously those hedges themselves unwind. But I would say that for modeling process, think about that GBP 90 million a quarter. And I think on a full year basis, somewhere between GBP 100 million and GBP 200 million for those hedges for this year and possibly again next year. But we'll try and do our best and keep you posted as to what to expect in the future. Within sort of beyond that, Head Office there's really not much left. There's very small remnants of Non-Core. But nothing that we feel is significant enough to call out. The other point I would make that, of course, is that although Head Office, of course, is therefore a negative in terms of P&L and a drag on returns, they're very much focused on managing the group returns. And the double-digit return that we posted in the First Quarter is something that we're very, very focused on. And a final comment on Head Office. So maybe helpful for your modeling purposes, that as far as capital goes, we are allocating capital to the businesses at a full 13%. So we've got a slightly unusual scenario. We're running at 12.7% CET1 ratio for the group. So we feel like we've over-allocated capital relative to the group position. But we're very comfortable with that. We'll make sure to make the appropriate returns assessment and marginal returns. So why don't I stop there and I hand over to Jes who can also...

Joseph Dickerson, Head of European Banks Research & Equity Analyst

Tushar, can I just ask, where was this GBP 90 million impact from the legacy capital instruments booked before? I mean, why is that being flagged now? You've been paying the 14% on those instruments for some time.

Tushar Morzaria, Group Finance Director & Executive Director

Yes. And we haven't decided just now, we talked about this at the full year results. So hopefully you've had a chance to anticipate this, that what we would be reporting here. Where it was allocated, GBP 30 million of it, we've called out, was allocated to the Markets business. The rest was proportionately allocated to the rest of the bank. And the reason why we're sort of highlighting it now or sort of reporting it now is that these are instruments that are not really indicative of our marginal funding cost. We're not really paying anything like these levels to generate new funding. And therefore, when businesses are making marginal decisions, it'll just potentially make incorrect decisions. And we would be expecting -- you know you've got the RCI that you're familiar with will come for a call next year. We've got the dollar prefs in there, which of course, we have a quarterly call featuring. So these are probably transient in nature as well. And therefore, it sort of gives you a sense of knowing when they drop out and what the effect of them -- effect they have.

James Edward Staley, Group CEO & Executive Director

Then, Joseph, vis-Ã -vis the cost-income ratio, we stand very confident behind our target of getting that cost-income ratio below 60% in 2019. Obviously, with our mix of businesses, we have different contributors to that cost-income ratio. Our consumer bank, we would expect to be in the low 50s, if not below that. And we're on our way to getting there. But the second is Corporate and Investment Bank at 64%. You would expect a corporate and investment bank to run at a higher cost-income ratio than a (retail) bank. At 64%, we are very competitive with The Street. I think that underscores the fact that we have the scale to produce the revenues they want to and at a competitive profitability. Joseph, your questions about the growth in markets and where it's coming from, the first thing is there is -- or there has been a gain on our private market share, both the Fourth Quarter and the First Quarter, that our dollar revenues in the Markets business was up 21%; whereas the U.S. banks on average were up 10%. And the European banks, I'm sure you've seen. So that was a strong performance on a relative basis. In terms of the -- where would you attribute that improvement from, as we talked about, both Tim Throsby and myself, it's a function of people, technology and reallocation of risk-weighted assets and balance sheet. I think the people factor has been very important, starting with Tim himself and the team that he's put together below him. Technology, we're about halfway through the reengineering of our electronic trading platforms. Initial rollout was in the fall of last year around vanilla interest rate swaps. And you can see in our Tradeweb market share business around package trading and MiFID swaps, our market share has grown 4x since we launched that electronic trading platform. And we have more to go as we go through 2018. But tech has clearly had an impact for us. And in terms of reallocating capital, what we talked about is in the second half of last year, we took GBP 10 billion of risk-weighted assets that were in our corporate loan book that were generating in terms of those overall relationships, RoTEs in the low single digits, reallocated that GBP 10 billion to our Markets business between credit, equity financing and macro where we were generating at the marginal rate high teens, low 20 returns on tangible equity. And you can do the calculation backing in of how does that improve our profitability. So I would say overall, that most of our performance in the First Quarter was driven by the investment we made in people, technology and better allocation of our risk-weighted assets. But obviously, everyone in the the market benefited from, we think, improved conditions. And this is a market that will show volatility. But we like the progress that we're making.

Operator

Our next question, Tushar, is from Jonathan Pierce of Exane.

Jonathan Richard Kuczynski Pierce, Analyst of Banks

Two questions. The first is on the return on equity guidance, the second on the US Card book. On the ROE, when you put the ROE guidance in place, the TNAV was 281p and you explicitly told us for planning purposes, that was going up. Now since then, the TNAV is down 11%. And I expect there's some acceleration of TNAV headwinds in the last few months. But it still looks like it's going to struggle to get back to 280p anytime soon. Then, of course, you've had the change in the U.S. tax rate. So I can understand why at full year you were reluctant to increase the ROE targets at that point. But why are we not seeing an increase in ROE guidance now? I mean, what has changed that maybe dampened your enthusiasm a little bit since Q3 or the numerator in the sole ROE equation? That's the first question, please.

Tushar Morzaria, Group Finance Director & Executive Director

Yes. Do you want to give us both of them, Jonathan. And we'll try and cover...

Jonathan Richard Kuczynski Pierce, Analyst of Banks

Yes, sure. The second question is on the US Card book. I mean, I can see that delinquencies are flat in the First Quarter. And clearly, U.S. books tend to be a bit more seasonal and this is in Q1. But the formation of new NPLs in your U.S. book is clearly picking up, I think. And I'm really wondering at what point would you stand back from your growth targets for balances and 10% compound a year over the next few years? And I guess just supplementary on that, you mentioned economic forecast changes in the U.S. and this is the first set of numbers we've seen where these sort of changes in IFRS 9 are having some impact. Can you give us a sense of the scale of what those change in the forecasts, a bit of the impact of that on the impairment charge in Q1 in the US Card book was, please?

Tushar Morzaria, Group Finance Director & Executive Director

Yes, sure. Thanks, Jonathan. So let me take them in the order you gave them. I think in terms of return on tangible equity guidance, if anything, we're more enthusiastic about our profit objectives than we were when we set those targets. We mentioned a couple of things that are beneficial. The U.S. taxes are, of course, extremely helpful to us. And that we've guided you to a low tax rate and you've probably flown that through. As the rate environment looks still helpful. Currency rates are probably less helpful than we would like. But they'll be what they'll be. So I think I certainly wouldn't make any suggestion or leave you with any sense that we're any less enthusiastic about our profit objective. Now how that translates into a return on tangible equity, obviously, it's where tangible book will be. Now you're right to call out that the 2 onetime effects are IFRS 9 and now conduct and litigation stuff, that we had sense of them as well as you did. Tangible book, absent those 2 things, will it grow 7p just from profit retention? But again, then we've got 2 items that are very hard for us to forecast and the currency translation reserve and the cash flow hedge reserve. Of course, the cash flow hedge reserve is an interesting sort of item for us because it puts downward pressure on tangible book as rates back up. And of course, that helps EPS as rates back up. You can see how rate sensitive we are. But asset movement in those sort of reserve items, we don't have the crystal ball on currencies and rate levels in the future. Tangible book should grow from here, principally from profit retention, net of any distribution out to shareholders. And hopefully, you'll see that on most people's numbers over this year and next year, tangible book appreciates very significantly. Now to the extent that for whatever reason, tangible book is lower than we anticipated, of course, if it's driven by interest rates -- I mean, interest rates backing up, of course, that will help absolute profitability and certainly help absolute returns. And one of the things we're very great keen on stressing rather than sort of updating returns target sort of every quarter for these kind of moves, it's a stress that we are targeting greater than 9% and greater than 10%, respectively, on a higher tangible book. So I hope that's helpful to sort of give you some sense of how we're thinking about the potential profitability of the company and really focused on driving that up. In terms of US Cards, yes, at the moment, we actually feel pretty comfortable with sort of credit conditions in the U.S. Delinquencies are up slightly but relatively small increases on relatively low numbers and very much consistent with where we're seeing sort of peers in the US Cards business operate. And you're right to point out that under the sort of the new accounting framework, we have seen a benefit to the U.S. economic environment, the 2 areas that sort of improved and just really off the back of U.S. tax rates where there was structural revision, particularly actually in HPI where there were some improvements there and some very modest improvements to GDP. And the thing that you'll get sort of more used to when you see further reporting periods, not only the baseline forecast scenario that you have to look at, you also look at the upside and downside scenarios. And actually, in the U.S., it was probably slightly more beneficial to the downside scenario actually rather than the baseline and upside. And that's what resulted in a revision to our sort of expected life of impairment. So the most -- we feel pretty good with that. We feel that we're being paid very well on the risk. And the bulk of that partnership book, of course, is sort of clustered around some of the bigger airlines. And they tend to be relatively high FICA scores. So hopefully that helps you there as well. Is there anything you want to add, Jes, on that?

James Edward Staley, Group CEO & Executive Director

Thanks, Jonathan.

Operator

The next question, Tushar, is from Michael Helsby of Bank of America Merrill Lynch.

Michael Francis Helsby, MD and Co

I've got 2 questions, though. But just before I ask my question, I just want to clarify a point that you made before on the Center. So obviously, there was negative GBP 258 million in the First Quarter. You've told us that GBP 90 million of that was funding. And you're guiding to GBP 100 million to GBP 200 million of hedge ineffectiveness for the full year. So it kind of implies that there's another big negative in the First Quarter unless you're saying that actual hedging effectiveness is extremely small in the remaining quarters. So just to clarify, is that what you're saying? Or if it's not what you're saying, can you tell us what the other big negative was in Q1? So it's more of a clarification. Then the -- my actual questions are on just back to the US Card book. I think delinquencies in credit card books are a little bit misleading given the pace of the charge-off that you typically follow. So I was wondering if you could tell us what the charge-off rates were in the US Card book and how that actually changed quarter-on-quarter and year-on-year. And just linking into your PayPal, it'd be really helpful if you could just give us a comment on the momentum in the CIB as you've gone into Q2.

Tushar Morzaria, Group Finance Director & Executive Director

Yes. Thanks, Michael. Probably lucky enough, more than a couple of questions. But that's okay. Just to -- that's okay. Our Head Office clarification, yes, it's important that we get this cleared for you guys. So to your point, Michael, yes, guiding to GBP 90 million a quarter on legacy funding instruments, guiding to GBP 100 million to GBP 200 million for the full year in hedge accounting. And you're right to imply that, that leaves a further negative in Q1, which I wouldn't expect to reoccur. That negative in Q1 is really a combination of 2 things. And sometimes it'll be positive, sometimes it'll be negative. One is actual hedge ineffectiveness, which is -- there's no sort of predictability, rather we've had positive positive quarters and we've had negative quarters. But it'll be trend basis 0. And the net result from Treasury operations, which again we've had positive quarters and negative quarters. And net trend basis will be 0. So hopefully, that clarifies for you. On the US Cards, I'll just cover that briefly. And then I'll hand over to Jes on CIB, who may want to say something on PayPal. On U.S. Cards, the charge-offs quarter-on-quarter, now I don't think we've disclosed this for Q1. But it won't look that different from full-year results. And I haven't got the annual report in front of me. So I'm going to get someone to refer you back to credit risk losses as we disclose them. But essentially, it's fairly unchanged, I would say. And still feels a very attractive credit environment for us. But I take your point. I think as we go further, particularly in an IFRS 9 world, we may be more frequent in disclosing that charge-off rates. But in terms of year-on-year and sort of sequential quarter, Michael, it looks fairly well behaved and consistent with the risk appetite that we have sort of been quite well paid on that risk. Jes, do you want to comment...

James Edward Staley, Group CEO & Executive Director

So on the PayPal, we haven't set out actual economic numbers for The Street yet. But what I would say is, given the market share that PayPal has in the U.K. in the sort of the last mile of payments, plus we have pinned many consumers in the U.K. that bank with us electronically. And we think our mobile app connected to PayPal just has an enormous potential for us. So I think as we work on the partnership going forward, we'll obviously, I think, start to give The Street some economic numbers as to the implications. Usually, the CIB, the comment I'd make there is we had pretty good performance across all three months in the First Quarter. So it was not a quarter made of one month. And I'd sort of leave it at that as you think about that business going forward.

Michael Francis Helsby, MD and Co

Sorry, just to push you on this PayPal, Jes, enormous is a very big word in more ways than one. But obviously, you're leading us to think that this is quite a material new relationship for the group. Is that how we should think about it?

James Edward Staley, Group CEO & Executive Director

I think it's important. Yes, given the scale of PayPal in the U.K. and given our scale, I think it's important. I don't want to get ahead of myself and so more to come.

Operator

The next question, Tushar, is from Andrew Coombs of Citigroup.

Andrew Philip Coombs, Director

Firstly, I just want to come back to the CCP business. I have a question and a request on that one. And then a second question. On CCP, if I look at the provisions Q-on-Q, ever so slight dip, (2 59) versus (2 52.) That's despite favorable FX on that line. You had a positive U.S. model adjustment that you referred to. So it does seem like the underlying trend is heading up, which would fit with some of the arrears and delinquency datas that you've shown. So can you just give us a feel of what the underlying increase is in that book Q-on-Q? And my request would be, would it be possible to split out NII and fees for CCP? Currently, you only plot it for International. But given you're changing the business mix in that business to a low-risk approach, it would be very helpful for us to see the risk-adjusted margin there. My second question is then on CIB and Equities strength. You draw out financing and derivatives. Previously, you said in, I think, the second half of last year, U.S. equity flow derivatives have been weak. You'd lost past, now you'd replaced them. So can you just give us an idea how much of the improvement in Equities is because that's come back online versus how much is some of the strategic initiatives underway, like the electronic platforms and also the corporate equity derivatives build that you've got underway?

Tushar Morzaria, Group Finance Director & Executive Director

Thanks, Andrew. So why don't I take the CCP questions and ask Jes to cover the Equities' points. On your request for splitting NII and fees, let's -- fair point that we'll take it onboard. And we'll have to think about that. I understand why that request is there. So leave that with us. On the impairment trend, yes, I think Michael might touch on this as well. And I probably didn't get around to answering it. The impairment build, I -- we haven't sort of broken out the -- if you like, the effect of revisions to economic forecasts and the sort of like-for-like, if you like, impairment build. I would say, though, there wasn't anything unusual in this quarter. So I think if you sort of roll back on to, if you like, the old accounting standard, it would be as you probably would have expected. There's nothing unusual that we'd call out. The delinquency trends, which I appreciate somewhat can be a lagging indicator as much as a predictive indicator, were relatively very small tick-ups on a very stable sort of base. And that's how sort of underlying impairment would have looked as well. The book is growing. But of course, there's a seasoning effect before you get to see impairments build on the book and that seasoning effect, of course, comes with revenues as well. So hopefully, that sort of helps give you some context. And Jes, do you want to take CIB?

James Edward Staley, Group CEO & Executive Director

I wouldn't underestimate the impacts when you bring a new management team in, like Tim, like Steve, et cetera. And there's a demonstrable commitment to the business. Then you couple with that with the reallocation of risk-weighted assets that we talked about with revised -- some additional balance sheet. In terms of electronically and platforms around Equities, that's actually more to come. We focused first on the rates and the currency side. Your comment about activity with corporates is very correct. And we're also not only engaged with our traditional buy-side clients. But also we're reengaging with our corporate clients. There were a couple of important transactions for us during the course of the First Quarter. But I would say, overall, a lot has to do with our commitment to that business. And we're feeling the results of that.

Operator

Our next question, Tushar, is from Martin Leitgeb of Goldman Sachs.

Martin Leitgeb, Analyst

I have 2 questions and a very brief clarification, if I may. And my first question is on Investment Bank. And this morning, one of your main competitors, Deutsche Bank, announced they are pulling back out of certain products. And I was wondering if you see further scope for market share gain on the back of this. Is the Investment Bank currently the size you want it to be? Is this the new steady state going forward? Or do you see further opportunities to invest on top what you have earmarked already and to deploy more capital into the Investment Bank? My second question is on London and London property. And some of the recent data shows a weakening property market. And I think what's coming out of the Postcode Lending Data is that Barclays is, in particular, exposed to the performance of the London housing market. Could you share what your expectations are in terms of the London property market from here and how your book could cope in such a scenario? And finally, a very brief clarification on PayPal. Is this a brand-new agreement for PayPal? Or it's essentially PayPal switching from one bank to Barclays?

James Edward Staley, Group CEO & Executive Director

I'll take the IB questions and pass the property question and PayPal one to Tushar. On the IB side, we are very comfortable that the capital that we have allocated to the Corporate and the Investment Bank is sufficient for us to be the scale player that we're seeking to be and to deliver the services to our customers that we wanted to. I recently, in an interview, highlighted the CVS transaction and that, given our scale, we were able to write an underwriting check of $20 billion for that deal. There are only 3 banks that have written a $20 billion underwriting check: JPMorgan; I think, your firm Goldman Sachs; and Barclays. So we have the capital allocated. With additional capital that this bank creates, now what we want to do first and foremost is find areas in our consumer business, which have the levels of profitability that we find attractive on a risk-return basis as you see we're doing today in the U.K. around our Corporate Bank and as we're doing today around our high-quality FICO score, co-branded cards in the U.S. So we want to put additional capital into those consumer businesses. But perhaps, even beyond that, what we want to do as we generate excess capital is return it to our shareholders. And that's the real, I think, step-function that we have to make, increase the amount of capital that's flowing back to our shareholders.

Tushar Morzaria, Group Finance Director & Executive Director

And Martin, on London real estate prices, residential real estate, yes, you're right, the Postcode data shows fairly, I guess, a broad spread of postcodes that are showing some decline in house prices. I mean, for us, you know our loan-to-value stock, it's in, I think, in the very low 60s. And the new production that we do tends to be, again, towards a slightly lower end of loan-to-value. Now our sweet spot is probably in the 80-ish % or so. And it's something we pay a lot of attention to. We look at it very closely. We haven't changed, really, our risk appetite for a number of years. Most of the mortgage activity we have, as we've said in the past, a lot of it is remortgage business. And that comes through broker channels. So that's very helpful. And I think, instantly for London, when you look at our stock of mortgages, I talked about the overall loan-to-value being in sort of the low 60s, the London specifically actually is below 60%. So we feel very well positioned and still like that business and still prudently write new business. But you can see from our loan-to-value stats that we're towards the cautious end of that spectrum. With regard to the PayPal, it's not rotating one bank to another one. This is a brand-new relationship with Barclays. It's Trans-Atlantic, that is, in the U.K. and the U.S. Early days. But we have PayPal, obviously, a very serious player in global payments. We're, obviously, a very serious player in the U.K. in payments and increasingly so in the U.S. So very excited about this tie-up. And there's going to be some very interesting business opportunities that we'll be talking about in the future that derives from this.

Operator

Our next question, Tushar, is from Jason Napier of UBS.

Jason Clive Napier, MD, Head of European Banks Research. And Bank Research Analyst

So the first question was about CIB and, I guess, when we come to our own views on where market revenues may well be in the Second Quarter. But in terms of 2 of the businesses that, I guess, notionally, ought to be more stable, corporate lending and transactional banking. Corporate lending looks to be perhaps suffering a little bit on the FX front and the reallocation of capital. And transactional banking is certainly stronger than I had expected. Could you give us sense as to whether you think the kind of First Quarter run rates are kind of dependable for those 2 items in terms of gearing to FX and to the changes in RWA allocation that you have previously flagged? Then secondly, just to try and be a little bit more explicit on mortgage pricing in the U.K., I appreciate you put on GBP 1 billion in balances in the First Quarter. But that looks considerably slower than what you managed in the Fourth Quarter or the third. I'm just wondering whether you could talk to whether that is down to slow pricing, whether it's confirmed by the likes of Virgin, Lloyds and Royal Bank, you are interested in having the market price higher to take -- to have a greater volume appetite at least as far as you're concerned.

Tushar Morzaria, Group Finance Director & Executive Director

Yes. Thanks, Jason. In terms of the corporate lending and transactional banking lines, there's actually less foreign exchange exposure there. It's predominantly sterling based. It's really mostly U.K. clients. And we're probably -- it's not the largest, only one of the largest corporate banks for U.K. businesses, those that are headquartered overseas but need access to sterling markets to corporate banking matter as well as domestic clients. The corporate lending line, you're right, has somewhat come down principally because of rotating capital that's earning a very low return into other parts of CIB, where returns are more attractive. And we've made good progress on there. But there's still a little bit more to go. So there may be a little bit more downward pressure on that corporate lending interest line. Of course, if interest rates back up, there will be a sort of -- some sort of muting effect there. Transactional banking is a good business for us. One of the things we like when we're talking to these large multinational corporations, who we've got capital committed out to and we're really on to earn a better return, is they give us more transactional banking business, whether it's foreign exchange, trade finance, cash management, liquidity management, et cetera. And so hopefully, that business at least stays where it is and begins to tick up over time as well and somewhat driven, of course, by just general corporate activity. But not so much on foreign exchange. In terms of mortgage pricing, I think the key point to point now there is discipline for us. We're not going to chase pricing. We like the mortgages that we do. We like the returns that we do. But we're not going to chase pricing down. And I think GBP 1 billion of net reduction, a touch low. There's some seasonal aspects of that, as you'd imagine, we feel pretty good with. We have seen some margin pressure ease somewhat from, obviously, swap rates easing up as well. But also, there's a lot of sort of discussion around with the Term Funding Scheme coming to an end, will that have an impact on asset margin. And that may be driving a bit of it. And of course, as we see asset margins stabilize or even improve, our returns for new business will continue to tick up and, of course, that will be very exciting for us. The other thing I'd mention on the Term Funding Scheme, of course, our loan-to-deposit ratio is a touch lower than some of our competitors. So we probably won't be as -- I won't use the word sort of squeezed or so. But perhaps we have a little bit more flexibility around liability pricing. And that may be of some advantage to us as well.

Operator

The next question, Tushar, is from the line of Ed Firth of KBW.

Edward Hugo Anson Firth, Analyst

I just had 2 questions. One was just a quick one in terms of detail. I was just wondering if you could give us the credit risk loan position for Q1 as I've missed it. I don't think that's in the announcement. So that was question number one. Then question number two, I just wanted to ask you about the mix of business because -- and how comfortable you are or whether you feel we should see the sort of similar levels going forward. Because I think if our numbers are right, I guess, around, what, 75% of your profits now come from the Investment Banking operations, which is up markedly on last year. And I guess sort of related to that, if I look at the business ex the Investment Bank, that has performed pretty poorly. I mean, I think earnings were down about 30%, something like that. I get what you say about the hedge. But I assume that a lot of that's going to be related to the banking operations. And you've now got a cost-to-income ratio in the Investment Bank, which is below the rest of the group, which I thought was the most unique in banking. So I just wondered if you could give us some real idea of how we should look at the non-Investment Banking piece and how we should see that going forward.

Tushar Morzaria, Group Finance Director & Executive Director

Thanks, Ed. On the CRL, credit risk loans, we haven't put them into the Q1 release. We tend to give quite an extensive disclosures at the full year and the half year. Obviously, with CRLs, that would be accompanied by some more information around IFRS 9, probably staging. And et cetera. You've seen some of that in our transition document. So you won't find it in this quarter's release. But I think that using the annual report for now would still be a pretty good reference point. And you'll get it again in the interims.

Edward Hugo Anson Firth, Analyst

So cover ratios you -- so just to be clear. So cover ratios you think are broadly flat on the quarter.

Tushar Morzaria, Group Finance Director & Executive Director

Yes. That's right. I mean, yes, there's nothing I would call out that's a significant change, yes. And your second question around sort of business mix, profit mix, cost-to-income ratio. Look, I may have a few comments on that. One is, of course, a business like the CIB has tremendous operating leverage. So as you know, banking is a scale business in most regards, whether it's consumer banking or wholesale banking. And certainly, with wholesale banking, you can have quite powerful revenue generation. Over sort of a shorter time frame, it provides very powerful positive operating leverage. I think you've seen that in the First Quarter. With regard to the consumer businesses, I think profits are probably, on a reported basis, down. But I'll just -- I mean, they're obviously down. But there are some factors there that I wouldn't sort of point to being indicators of where the long-term profitability of those businesses are. So if you take our U.K. bank, for example, top line was down. But really it is down because we had a gain last year in the sale of the Visa preference shares that was obviously nonrecurring. We had a remediation item that's actually negative income this quarter. So underlying income is actually broadly stable. And we're pleased with that performance given the asset margin compression that we're seeing year-on-year that, I know, looks like you guys track very closely. And I can see in the Cards and Payments business, of course, you've got some fairly meaningful top line reductions. One -- driven from the one-off factors and the sale of the subprime portfolio as well as the income lost from the sale of that subprime portfolio (with them,) the impairments, of course, would be very high as well there as well as currency rates that can bring that top line down. Underlying income, actually, in CCP in a (constant) currency basis is actually up 6% and, of course, we're growing that business. So I think I wouldn't sort of just take this quarter and extrapolate that. I think there's a different balance as a group when you look at some of these effects. And the other thing I'd say is we are growing the consumer business. There is new capital going into both the U.K. business and the CCP business. And that's something we're really keen on developing over time. So I hope that gives you...

Edward Hugo Anson Firth, Analyst

Sorry, if I look at the non-CIB business, you made, what, GBP 600 million in the Third Quarter last year, this quarter you made GBP 400 million. And I'm just trying to get a sense as to whether we should -- is that sort of the reduction that we should expect for the rest of the year?

Tushar Morzaria, Group Finance Director & Executive Director

Yes. Look, I'm not going to give you a profit forecast, obviously. And you probably went after it anyways. But I'll just encourage you to look through how we think NIM will develop, look through how we see the growth of CCP develop, look through how we see the balance sheet of the U.K. business develop, the rate environment you'll see. So I guess, what I'm saying is, we're actually quite optimistic about that business. I'm not going to give you sort of profit guidance. And I know that's not we are looking for. But hopefully, you're getting a sense from us that we like our positions in those businesses. And we're looking forward to growing those businesses over time.

James Edward Staley, Group CEO & Executive Director

The only thing I would add, Ed, is going back to March of 2016, the foundation of the strategy is to have a diversified business model. And we want to have a balance between our consumer business and our wholesale business. We think that is the safest platform with which to run a scale bank like Barclays. And we want to deploy our capital in a way that gives us the proper balance. And any one quarter might swing one way to another. But the overall objective is to be balanced between our consumer and wholesale businesses.

Edward Hugo Anson Firth, Analyst

And so -- I know it's just the First Quarter. So just -- would you feel that the sort of 74% coming from CIB is perhaps sort of overweighted this quarter and normally is, I guess, the First Quarter towards the CIB. And we would expect a more balanced look through the rest of the year. Is that a fair assumption?

James Edward Staley, Group CEO & Executive Director

I think it's fair to repeat what I've said before, which is that in terms of new capital allocation of businesses, right now we would be putting that new capital into the U.K. and U.S. consumer businesses.

Operator

Of course, Tushar. The next question is from Christopher Cant of Autonomous.

Christopher Cant, Partner, United Kingdom and Irish Banks

Two, please. If I could just push you on the earlier question on TNAV per share coming down. You target 13% CET1 and you're at 12.7%. So 30 bps of CET1 on your current RWAs would be about GBP 1 billion of extra TNAV at 5p per share, that would get me to 256p. Even allowing for the unwind of the IFRS 9 transitioning, which might be about another GBP 1 billion over time, I just don't see how you would get anywhere near the old greater than 281p per share guidance, given your CET1 target, unless you're planning to run meaningfully above 13% on CET1. And I understand that rates are driving cash flow hedge impacts, which are hard to forecast for the quarter. But you were anticipating rate -- when setting your target back in 3Q, you were expecting some rate rise benefits to come through. So it feels like there is some offsetting negative on the numerator in terms of just reiterating rather than improving your RoTE guidance. And I guess that you're stressing for more than 10% for 2020, which gives you scope to do better. So it would still be at the correct target. But why is it not also more than 10% in 2019, given the tax rate benefits and the roughly 10% decline in TNAV versus your expectation at the 3Q stage?

Tushar Morzaria, Group Finance Director & Executive Director

Yes, Chris. So a couple of points there. I think on the rate rise, it's actually the long end of the curve that really affects the cash flow hedge reserve rather than sort of short rate. So -- and that's, obviously, trickier to forecast. And we don't have -- probably no one does have a crystal ball on that. But as we said before, we like rates backing up. Generally, it's a good economy. So that's more profitable for us. In terms of capital ratios, we sort of landed precisely on 13%. We've always said around 13%. And we'll keep you updated as to what that level needs to be. Obviously, if it's -- we don't need to run any more capital than we need to. But I wouldn't necessarily leave it at 13%, although I take your point whether return guidance will struggle. To the extent we generate additional capital over and above that we need to maintain our reg ratios, depending on what we do with that capital, that could also be accretive to both earnings and tangible book value. For example, if we were to repurchase shares, that obviously would change TNAV as well. The point I really wanted to make, though, is when we took a sort of step back, if you just look at consensus generation of profits from here and not my numbers sort of just publish consensus for the rest of the year and the next year net of sort of, if you like, preannounced distributions, you get a much higher tangible book value than we have today. And that's how we think about where we believe the profit generation potential of the company is. And you're right to point out, we have some good tailwinds from U.S. tax rate, possibly from interest rates. And we'll see where FX rates go. So rather than trying to be too precise on modeling this sort of quarter in, quarter out. But I hope that gives you a sense of where our ambitions and profit objectives are for us. So...

Christopher Cant, Partner, United Kingdom and Irish Banks

In terms of the consensus TNAV building, I know you didn't publish a consensus TNAV with the most recent consensus, you did publish capital consensus has you building capital is 13.9% for 2020, which is obviously, a long way above circa 13%. And I think that would be stretching the bounds of circa 13%. So that doesn't really seem to square off of what you're telling us in terms of how you're calibrating your RoTE target.

Tushar Morzaria, Group Finance Director & Executive Director

Yes, no, you're right, 13.9% is -- I wouldn't call that around 13%, this would be more like around 14%. But I guess, I'll go back to, Chris, what do we do with that excess capital. If we were to reduce share count, obviously, TNAV will change. But -- and if we have a lower TNAV than we had when we were striking our targets, we don't have any changing view of our profit potential, if anything, higher degree of confidence given things that you mentioned, for example, U.S. tax rates, we expect returns to be better. But hopefully, that gives you the context.

Christopher Cant, Partner, United Kingdom and Irish Banks

Okay. And the second one, could you, please, give us a sense of how much of the current GBP 1 trillion of leverage exposure relates to the CIB, please? And an update on how much of the additional GBP 50 billion of leverage capacity has now been deployed?

Tushar Morzaria, Group Finance Director & Executive Director

Yes, on the first one, let me put that in the request bucket, understand why you'd love to see that. And we'll consider that point. The GBP 50 billion of leverage is largely deployed. And unlike risk-weighted assets, that's quite a big thing to put to work.

Christopher Cant, Partner, United Kingdom and Irish Banks

On the CIB leverage, though, I mean, if I think about your -- it sort of relates to this tangible equity point. You're reporting a 13% RoTE for the CIB today. And that's based on about GBP 20-something billion of allocated capital. If I think about what you said on leverage in the past, at the analyst breakfast post 4Q, you said you expect the group to run with about 5% leverage ratio, that sort of ballpark. If we say that the CIB is about GBP 800 billion of leverage capacity, which, given the total assets for BBPLC are about GBP 900 billion, per Slide 43, feels like the right sort of ballpark. I appreciate I might not be getting that quite right. But the right sort of ballpark, that would imply a much higher level of allocated capital for CIB on a leverage basis when you're using 13% RoTE today, no?

Tushar Morzaria, Group Finance Director & Executive Director

Yes. So we think of leverage, Chris, as I've mentioned in the past, very much as a backstop, not a frontstop. We will run the company to be constrained on CET1. And that will be our primary measure of sort of being allocation of capital. That's why we sort of allocate it on a base of 13% CET1. We have a diversified set of businesses in Barclays International, the legal entity. And that allows us to optimize leverage capacity accordingly. We, obviously, have some consumer businesses, which are very under-leveraged. But actually have a very high risk-weighted asset density and a bunch of wholesale businesses which, obviously, consume more leverage. But generally are lower risk-weighted assets entities. We tend to use leverage in the aggregate as a backstop measure and CET1 as a frontstop measure. So pretty comfortable with the way we're allocating capital and, therefore, striking our returns. And the BI entity, as a whole -- yes, Chris, the BI entity as a whole, hopefully, on that measure had a comfortable double digit return. Chris, I'm just a bit conscious of trying to get others on the call as well. So I know we're meeting later on. So I appreciate your questions. And we'll definitely spend more time with you when we have the regular breakfast with the analysts, if that's okay.

Operator

Our next question, Tushar, is from Robin Down of HSBC.

Robin Down, Co

Obviously, people have been exploring the TNAV development. But can I just explore the Core Tier 1 development from here. I guess, on the numerator side, are there any sort of one-offs or things that we need to be aware of going forward? I guess, you'd probably take a hit if you call the preference shares, you'll still have prefs in a few weeks. But anything beyond that? Then on the RWA side, I think my expectation was that BarCap RWAs would be kept broadly static with reinvestment out of the last corporate book and into the market business. But obviously, the RWAs are moving up. I think the market RWAs were up reasonably notably within Q1. Can you give us some color about how you see that developing? Is that the function of sort of volatility we had in Q1? Will some of that come back? Or do you expect further growth from here?

Tushar Morzaria, Group Finance Director & Executive Director

Yes. Thanks, Robin. On the uses of capital, yes, were we to retire the U.S. dollar preference shares, we'd have to pay for that from capital as we've done in the past. So we may or may not choose to do that as well as any other sort of parts of liabilities that we take action, those we do periodically. Not so much on the numerator. But that's again we've got the deconsolidation of Africa that will be accretive to the ratio. In terms of other negative adjustments. So I don't see too much on the horizon apart from discretionary uses of capital around things like LME. You mentioned BarCap for RWA, just to remind folks, we don't really have a BarCap (as far as) CIB.

Robin Down, Co

Sorry, I'm stuck in the past.

Tushar Morzaria, Group Finance Director & Executive Director

It's funny how names stick. But yes, I know you mean CIB. Think of CIB RWA, if you look at year-on-year, Q1 '17 to Q1 '18, they're actually about flat. But as you look on sequential quarter, typically, we use more RWAs in the First Quarter. It's just a bit timing market. And it's a seasonally quieter timing market towards the end of the year. So I've just mentioned a number of times, CIB RWA and capital will stay where it is. But do expect the consumer businesses to be ticking up over time. I know we've been made for -- yes, sorry, go on, Robin.

Robin Down, Co

Should we expect the RWAs to come then a touch in the Markets business in Q2?

Tushar Morzaria, Group Finance Director & Executive Director

Yes, look, I don't want to give quarter-by-quarter guidance. But broadly stable on a year basis, definitely no net growth as we look on a trend basis. I know we're coming up to about 1.5 hours. Should we -- I think we've had a chance to go around most people. Should we make this the last question, please, operator?

Operator

Our final question this morning, gentlemen, is from Tom Rayner of Exane.

Thomas Andrew John Rayner, Executive Director for Equity Research & Analyst of Banks

Wasn't that nice, to be last? I just wanted to come back really to the CIB and comments, Jes, you made about the cost-income ratio at 64% leaves you competitive, gives you the scale to generate the sort of returns you need to make. Clearly, Q1 is a strong revenue quarter certainly for the IB part of CIB. And there is very much a mix, if you actually disclose the costs. So I think we'd be able to see quite a difference between the cost-income between the corp and the IB, or, as Robin likes to say, the BarCap part of the business. So I'm just trying to get a sense about how happy you are with the progress you've made in dealing with the costs, controlling the costs within what was the stand-alone investment bank part of the business. Then as a supplementary just on the revenue, I mean, looking through your commentary, it looks as if the main positive versus perhaps expectations in Q1 was the equity derivatives driven by better sort of higher volatility. And I think other investment banks have suggested that, that was really a January/February phenomenon by March. Some of that had already unwound. And I just wondered if that was something that you also saw that the real driver there had tailed away by the end of Q1.

James Edward Staley, Group CEO & Executive Director

Yes. So let me make a couple of comments. One thing that sort of I feel very good about is we took quite a significant economic charge at the end of 2016, in order that we could align our comp accrual with our revenues. And I think given the volatility of CIB, having the ability to move your accrual of compensation with your accrual of revenues, I think, is very important. And we did that in the First Quarter. So we had a very nice revenue print in the CIB. And we've reflected that in the cost line. And I think that reinforces our comfort with the cost-income ratio that we seek in that business. The other thing I would add is, no, we also stood up in the First Quarter our service company, what we call now Barclays Execution Services. And of the 82,000 employees of the bank, now 55,000 are in that service company, where we run processes doing what we call transaction cycles across the entire bank. So how we manage data is managed in Barclays execution services across the consumer bank, the card business, private bank, the wealth business, the Corporate Bank and the Investment Bank. And that running your core processes across the bank in a single entity allows you to extract very significant efficiencies. And we look to extract those efficiencies now and in the next couple of years. It is what, in fact, is driving to that cost target of 13.6%, 13.9% for 2019. So we've got greater correlation between comp and revenue. We also have the efficiencies coming out of that service company, which we think is a unique organizational model amongst major banks. And I'd sort of leave at that.

Tushar Morzaria, Group Finance Director & Executive Director

Thanks, Tom.

Thomas Andrew John Rayner, Executive Director for Equity Research & Analyst of Banks

Sorry, Tushar, just on the revenue driver, the equity derivatives volatility issue?

Tushar Morzaria, Group Finance Director & Executive Director

Right. Yes. So I think as Jes mentioned earlier on in the call, see, there was more (vol) in the market in February. And that's helpful to our business. But I think Jes has mentioned earlier in the call that we sort of had a sort of steady performance across all three months rather than sort of one month making the quarter. And I hope that it gives you the context, just we're not talking about Q2 trading any more than that. But hopefully, that's helpful.

Thomas Andrew John Rayner, Executive Director for Equity Research & Analyst of Banks

Yes.

Tushar Morzaria, Group Finance Director & Executive Director

Okay. Thanks, Tom. And thanks, everybody. And so many of you, hopefully, we'll see on the road over the next couple of weeks. Thank you.

Operator

Thank you. That concludes today's conference.

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