

Barclays PLC FY/Q4 2016 Results

23 February 2017

Analyst call Q&A transcript (amended in places to improve readability only)**Ian Gordon, Investec**

On Barclays UK, I take the point that revenues have been held flat against some headwinds, but we've now had roughly eight quarters of no balance sheet growth, and that's a choice. You're not capital constrained, you're not constrained by a fat NIM on an SVR book, so it's a choice you've made. I think, Tushar, you used the phrase "we may be leaving some cash on the table". So my question is, what are you going to do about it?

And my second linked question; on Brexit, to your great credit, you've not put out the same fake news headlines as your near neighbours about restructuring issues arising from Brexit. You've also made the comment today that you've seen no deterioration in UK credit since Brexit. In the light of that, doesn't it reinforce the opportunity for a rethink in terms of the scale of your balance sheet ambition in Barclays UK, your high return business? And secondly, could you just please reaffirm your comments around the limited impact from a restructuring perspective?

Tushar Morzaria, Group Finance Officer

In Barclays UK, assets have grown very slightly. Liabilities have actually grown much more than assets, and that's interesting. Our liability base has gone up. It's about £189 billion now in Barclays UK, up close to £20 billion I think, and that's in the light of us actually lowering our deposit rates quite significantly.

Jes mentioned earlier that a lot of our growth you've seen relates to operational deposits, whether it's in business banking, current accounts, as well as some savings accounts balances, so that's good in the sense that even in a lower rate environment, it's attracting operational customer flows into Barclays.

On the asset side, we have some choices. Margins continue to be eroded in the mortgage business, and we've been quite cautious around that, trying not to chase low margin business all the way down. In fact, when I look at our fourth quarter completion, mortgage margin was actually up for the first time in some time for us actually, so we are making that choice of trying to balance maximising NII, but not necessarily just chasing balance sheet growth at low margin business to achieve that.

You're right in the sense we're not as capital constrained as we may have been in times gone by, so we do have those choices. But our objective function really is to maximise NII, and that's a trade-off between volumes versus margins, and you can see us flexing our levers on that.

Jes Staley, Group Chief Executive Officer

With regards to Brexit, I think we said shortly after the vote that a political shock doesn't necessarily lead to an economic shock, and obviously I think you've seen a fairly robust reaction by the British consumer post the Brexit vote. On the other hand, there is another caution out there which is what

you've seen in inflation, and to a certain degree some of the increased consumer spending and consumer credit numbers that you see is driven by inflation, and there are some signs that consumer confidence is beginning to reflect some of that inflationary impact. We need to keep an eye on that, but ultimately we're here to support the UK economy and I think that we've shown that in terms of using our balance sheet for small businesses, for corporates and for unsecured lending. We will continue to do that, but in a prudent way, not to risk the capital position of the bank.

Alistair Ryan, BAML

Thinking about the investment bank, now that it's part of the Corporate & Investment Bank (CIB), it's quite hard for us to back out what you think investment banking returns are at Barclays at present. And Tushar, you mentioned in your speech that you think they'll improve, but what do you think they are and where do you get them to?

Secondly, Jes, you don't only think of the Americans as gaining market share; you're saying that you're actually a bulge bracket player. You have about half the capital applied to investment banking as the big American banks. Where would you scale yourself? Where would you scale your ambition in investment banking as we think about how big you want to be, now that you've got the capital to make the choices? Thank you.

Tushar Morzaria

So on returns, we are running an integrated CIB, so there's no concept internally between some people working for the IB and some people working for Corporate – it is an integrated business so I can't give you that breakdown. It's not how we manage it. At 6.1% [CIB return on allocated tangible equity] on a full year bottom line statutory basis, we've put everything in there. You can decide for yourselves whether you want to look through any of those items. We ourselves only look through the compensation charge and a couple of other items that we consider more capital in nature and returns enhancing. So we think we're much closer to double digits.

I think what's really pleasing for us is Barclays has gone through immense restructuring in its investment bank, and it's pleasing for us to see that we're improving our market share, both in markets and in investment banking. We broke into the top five in the US [fee share, excluding self-led deals], dislodging one of the American banks, which has been a preserve for them for some years. So we feel very good about market share. We've increased our market share in the UK as well, and you've seen the improvement in our markets revenues.

I still think we have opportunities to sweat the balance sheet harder. We've got Tim Throsby sitting here in the audience, who's very skilled at that. And I think we've done some of that, but I think there's still more we can do, particularly as you integrate the corporate and investment banks further. I think there are opportunities there.

We're also in the peak point in our cost cycle, probably. We've got structural reform costs probably at their peak here. We're having to ring-fence in the United States and run CCAR for the first time, and for those of you that know all about that, you can understand how extensive that is.

So I think the prospects for us are good, and what's pleasing to me is I can see that the improvements in market share are dropping to the bottom line, and even changes in the deferred compensation will allow us to reflect more of that in-year.

Jes Staley

As I said, first and foremost we absolutely have to run an investment bank which is safe and stable. And we will manage our risk in the investment bank so that it never threatens the stability of this bank. That aside, as we've said since 1 March of last year, the foundation of our strategy is having a balance between consumer and wholesale. As we've show in our slides, basically our balance right now is

roughly 50/50 in terms of revenue. We never want to get that out of kilter. We want to be a bulge bracket global investment bank, but within a context of having a balanced business between Barclays UK and Barclays International; our consumer businesses and our wholesale business. It's that balance which I think gives a particular attractiveness to Barclays as a bank.

Tushar Morzaria

A final comment I'd make on that; if we go back for three years, we've shown that Core returns, [considering the] capital allocation we've had in the Core, have tracked about 10% on average, quarter by quarter, with actually not that much variability. You've got things like bank levy and things like that that come in and out, but by and large it's been quite stable, and that's quite important for us, that stability. But it's on the back, obviously, of profits growth, because the equity been allocated in the Core has tracked up.

So we feel that we really can achieve that – continue to track that profit growth to generate an approximate double digit return with the capital allocation we've got. And hopefully you've seen that stability come through in Barclays as an overall group. And sometimes the consumer bank business will earn more than the wholesale businesses, as I'm sure the reverse of that will be true at some point, different in the cycle.

Chirantan Barua, Bernstein

Two questions; one, instead of just the investment banking side, the split between the geographies, the UK and the US. Now lots of people are very excited about the US recovery both on the consumer side as well as the market and investment banking side. So the question to you, Jes, is if the US actually clocks a 4% GDP and we see the enthusiasm play out in the next two years, will you be willing to move capital from the Group incrementally into the US? How should we think about capital allocation and the way you think about movements? I understand the 50/50 split, but it'd be great to get some colour on the geography.

And the other thing is you showed 35% of income from the US, and Tushar, what percentage of the tax base is the US as well? That'd be great to have that number, given all the tax regulations out there.

Jes Staley

I think we have been very clear that we like the balance of our portfolio, and being a transatlantic bank is at the core of our strategy. We will always look at profitability and return on equity when considering the allocation of capital.

We've said our receivables in our US card business now exceed our receivables in the UK card business. We put an investment in to get the American Airlines portfolio last year. We'll continue to pursue opportunities like that. So it's our obligation as management to apply capital in a way that gives the best returns for our shareholders.

We think, at the end of the day, we are a British bank. We are anchored here in the United Kingdom. We think there are great opportunities here, and we want to keep that balance. And hopefully, if there is an economic engine coming out of the United States, that spreads and has a global impact, and we benefit from it globally. But you won't see us get out of balance. We're not going to chase a monoline opportunity just because for a short period of time it's got nice returns.

Tushar Morzaria

And regarding the tax split, we don't break it out – that's the point of your question. We haven't broken out and won't on a call like this. But it's interesting for us. We are profitable in US dollars. You can see that obviously with the currency tailwind you've seen now for the pre-tax profits. So any improvement in the tax regime in the United States will be very, very helpful for us. The devil's going to be in the detail

though. There are all sorts of things being mooted and it's too much speculation to really decide what's going to happen and when it's going to happen.

Jonathan Pierce, Exane BNP Paribas

Can I ask you two questions? The first is a simple one on the AFS gains which, ex fees, are, I think, about £300 million in the year. Is that entirely in Core, and whereabouts in Core does it sit? Is it all Head Office or somewhere else?

Tushar Morzaria

You're getting into the weeds of it, but most of the AFS gains are really through our treasury operations (in Head Office). So, yes, mostly it goes through our Core business.

Jonathan Pierce

Okay, thanks. The second is a broader question on the capital trajectory for this year. There are a couple of things obviously happening; we see you've already redeemed one of the preference shares which I think [has a capital impact of] about 10 basis points. The next [preference share], the final big one, looks to be about 20 basis points, which, given your comments, sounds like that's coming this year as well. A good thing to do, obviously, but that's a 30 basis point headwind in total. On top of that, I'd just like to understand a bit better the pension fund, because now the UK retirement fund is pretty much breakeven, but it looks like you're going to have to contribute £1.25 billion this year, which will create a surplus, but that will be taken out of capital and will obviously debit cash. That's another 30 to 40 basis points headwind to the capital, presumably, if the maths is right.

So can you confirm that those two things together could provide a headwind this year of maybe 70 basis points to Common Equity Tier 1? And could you maybe just frame the response in terms of the dividend as well? What's your current thinking on the resumption of dividend growth?

Tushar Morzaria

I can cover the capital things and Jes may want to put a word on capital distributions, but we're not going to comment on whether we're calling any other [preference shares] or conducting any other liability management exercises (LME). The maths you laid out is the maths you laid out. It'll very much depend on the currency rate prevailing as to what cost it would be to redeem that particular tranche, whether that's something we choose to do.

And of course there's a waterfall of things we can do with any capital that we have. You've seen us take real estate actions, you've seen us conduct liability management exercises, you've seen us change deferred compensation, and there are parts of the business we think we can invest in. So there's a waterfall of things we can do, and you'll see us cover all of those actions. Some were only available to us at certain points in time, like real estate, whereas some of them are available every single quarter, if you like, like an LME.

In terms of the pension fund, you're right. You're going back to the deficit recovery plan from the last triennial valuation. We're in the current negotiations of our current triennial valuation. Assuming nothing changes, then you're absolutely right. We have a contribution to make, as you pointed out, and given that we're roughly flat at the moment, we're in a slight surplus, it'll be straight off our capital account. That's totally within our capital projections. We run our own capital plans of how we get to our end-state capital position. We've taken all of that into account, and of course we have to make a whole bunch of assumptions on other stuff that we don't know, like how IFRS 9 is going to be handled by regulators and whatever. We try to be prudent in all of our assumptions and we feel we get there quite well.

Jes Staley

And in terms of dividends, obviously the dividend policy is the purview of our Board, and our Chairman is here today. We gave guidance for 2016 and 2017 at three pence. Obviously, we're accelerating Non-Core, and I think at the right time we'll be talking to our shareholders about the dividend policy going forward.

Chris Manner, Morgan Stanley

Good morning, two questions, if I may. The first one is: maybe you could give us a little bit of an update on where you are with the DOJ and the RMBS suit, and where you are on PPI and if you've taken the last charge there? So maybe a little bit of colour on the litigation side.

And the second one is, as we understand it, the new administration in the US is quite keen to hear from banks as to what types of financial regulation they don't like, what changes could be made, and I just thought I'd maybe ask you what piece of US regulation don't you like and might you prefer to be changed? Thanks.

Jes Staley

Well, on the DOJ, and our General Counsel is here, obviously we did not reach a settlement at the end of last year. I think the only public comment that we've made is that what we wanted is to be treated fairly with respect to how the US banks were treated. And I'll leave it at that.

On PPI, I think we feel that we are properly reserved at this level. Let's just see how the PPI issues unfold over the next couple of years. Right now I think we have the right levels of reserves.

Vis-à-vis US regulation, clearly the banking system is significantly safer today than it was going into the financial crisis. I think the banks are performing reasonably well within the scope of Dodd-Frank, and besides that, we're really not going to comment on any specific part of that legislation. We are a counterparty to all the major banks, and so having a safer banking system helps Barclays as well.

Michael Helsby, BAML

I've got a couple of questions; firstly on the incentives, can you tell us how much of the £1.5 billion resides in CIB and whether – because now we can work out next year's impact – you'd expect the compensation relative to income to be broadly stable? That would be helpful.

Tushar Morzaria

Yes, we'll cover that right now. It's actually in the Rem Report in the Annual Report. It's just under £900 million [for CIB front office incentive awards].

Michael Helsby

Thank you. And you mentioned, Tushar, in terms of future headwinds on capital, IFRS9, yes, I think at your own conference in September you were asked what you think is the biggest headwind for capital for the industry or for European banks, and you said IFRS9 was your bet. So, with that in mind, if it was brought in today – and I'm sure you've run some numbers – what do you think the impact would be for Barclays in terms of capital and book value? Thank you.

Tushar Morzaria

I won't disclose that; the thing we don't know is whether there's going to be any transitional framework as it comes in. As an accounting matter, it's definitely coming in, and that will take book value down. I won't quote you the number because we're still a year away from putting that change through. But I

suspect, like other UK banks and probably other European banks, before we get to the end of the year, we'll update everybody on that.

In some ways the most interesting thing for us is the capital effect, because that's the one thing we just don't know. You've seen in the CRR II draft legislation there's talk of a transitional phasing-in approach. Whether that makes it into the final legislative text remains to be seen. We know that's something that the Bank of England is keen on and other folks, but that's the thing that we're most closely watching. In our own assumptions we've taken the most prudent case and run our projections, and we'll manage on that basis unless we're told otherwise.

Jes Staley

I think the regulators are recognising how extraordinarily pro-cyclical IFRS9 would be in its current form.

Martin Leitgeb, Goldman Sachs

Can I also have two please? The first one is on your US IHC, and if I read your latest filings there, they show that you have injected around \$1.4 billion in capital, roughly half of which is equity, half of which is AT1, which puts your leverage ratio in the US to 5.7% and the CET1 ratio at 11.3%. If I compare these to US peers and also selected European peers such as UBS and BNP, the capitalisation of Barclays' US IHC at this point in time seems meaningfully below that of those peers. I was just wondering if you could shed a bit of light on your capital plans there. What kind of capital levels are you targeting? Do you want to get there by retained earnings and over which time period, or should we expect further injections over there?

And the second question is on your FICC revenue line for the fourth quarter. And if I look at it in terms of US dollars, you're up 9% year on year, and this is obviously compares to US peers, up 43%. And the 9% actually is quite identical with that of one of your European peers for which there were considerable counterparty risk concerns over the quarter. Could you just shed a bit of light on what held you back in the fourth quarter and how we should think of performance going forward? Thank you.

Tushar Morzaria

Yes, all right. So let me do the IHC question. I think when we compare ourselves to the other folks that reported, there's a few things that stand out. I think we have a higher risk weighted asset density than many of the other Europeans, and I think, uniquely, we're profitable, which it doesn't appear that the others are as well. So with that in mind, and also with our own capital projections, you'll see us get to what we consider to be the right capital level to ensure that we're appropriately capitalised in advance of the 2018 CCAR run. And we feel pretty good about getting there. So I'm not going to quote a number. That's not guidance we need to give. But we know where we need to get to. We know what we need to get to in order to get through the CCAR process. I'm pretty confident we'll get there in good time.

Martin Leitgeb

Will there be further injections from here, or is it mostly organic in terms of profitability?

Tushar Morzaria

Well, as I say, we make profits and we have the ability to inject capital, but I'm not going to go into any more detail. You'll see the quarterlies as they come out in the Y9C report. So I'm pretty confident we'll get there in good time. And we're running a private CCAR this year actually, and that will give us a lot of feedback if we need to make any amendments to the plans that we currently have in place, which we've already, of course, shared with the appropriate regulators.

Jes Staley

The binding constraint I see will be the CCAR process, so we'll see how that plays out.

In terms of the FICC revenues in the fourth quarter, as we said during all of 2016, we run actually very light market risk RWAs in our investment bank. And clearly relative to some of the others, what that does is, it means we have less beta in our IB than many of the other competitors. So when you see the direction in the markets like you saw in the first quarter of last year – heading south – on a relative basis, we did extremely well. When you see a recovery of beta as in the fourth quarter, we're going to lag, as long as people put more capital on the desk than we do.

We like the amount of capital that we have deployed in investment bank. We like where we are positioned right now. We'll take those swings and plan to have less beta and more alpha through our portfolio, which we're comfortable with.

Tushar Morzaria

You saw that in the second quarter as well, when you saw an asset price risk-on environment, with people that run larger inventory positions than we do. We'll see that in their income print. But the stability of our revenues, I think, is something we find quite interesting relative to others, particularly if you look at this last year. Virtually every quarter fees in markets were almost within £100 million of each other, which is quite consistent, with up and down asset price market moves.

Andrew Coombs, Citi

Two for me; one on US cards and then one on structural hedge. On the US cards portfolio, you obviously had elevated Q3 provisions due to the true-up. Q4 also looked quite elevated, and you referred to a mix shift in the portfolio, but perhaps you could elaborate on how much is mix shift versus how much is underlying trends there? Also on that note, you talked about a reverse trend in 2017 in terms of mix shift, so again, perhaps if you could elaborate.

And then second question on the structural hedge. Your net structural hedge contribution actually ticked up slightly – by £0.1 billion – so interested in what's driven that, if the nominal value's gone up as opposed to the rate? So if you could just provide a bit more detail on the outstanding book, and then also current rates versus what you're reinvesting at. Thank you.

Tushar Morzaria

On the US cards portfolio, the business mix is something that we knew was coming in the second half of the year. One of our larger portfolios in the US business is the American Airlines portfolio. We've had it for some time. It's a very seasoned portfolio. And, of course, that came up for renewal and there were discussions with American Airlines. We had the US Airways component, obviously Citibank had the American Airlines. So it was a three-way negotiation.

As a result of that, the production origination in that portfolio just slowed down. So the rest of our book, of course, continued to grow, and we've got some marquee brands there, whether it's Apple, LL Bean and other stuff you've all heard of. But the American Airlines portfolio is super prime, so just by having that production slow down and it being a reasonably meaningful component of our business, our mix just naturally shifts without really doing anything else.

Underlying delinquencies have ticked up, and I think you've seen that across all the other US banks. I think that across the sector delinquency trends have ticked up. It is quite small, so these are off low, low levels as well. I think we should be careful to extrapolate at this stage as to whether there's something more going on there. We're on very low levels and only a real small tick up. For us, we ticked up slightly more than other banks, only because their mix shifted more appreciably than others.

Returns were great. We're very, very happy with the risk profile that we're running, but I think as we see the American Airlines activity come back on, because it's a sizeable portfolio, the mix will shift again. So it'll go to a higher credit scoring mix, if you like, and that will be reflected in the impairment charge.

Now, we want to grow the book, so that's not telling you that impairment charges are necessarily coming down, but it will tell you that the type of impairment charge that we'll have was reflective of that risk mix. But returns are pretty good. We certainly don't feel at all uncomfortable with the way the books performing.

Your other question was on the structural hedge. The structural hedge was roughly flat. It's rounding, probably, between last year and this year. It's a little bit harder to say this year, because we had such a sharp move in the rate environment. So you know we roll these caterpillar hedges but swaps roll on and get refinanced into lower rates.

So that's the continuous activity. It's held us in good stead, and in our current rate environment it continues to work out well. It's reflected in our NIM. Our NIM's been pretty stable, so I think you can see that the effect of having these structural hedges in place has helped in that regard as well. I haven't really called out whether the nominal value increased or whether the rate changes have shifted much, but it's probably neither or both. It's just the rates going back to where they were before.

Fiona Swaffield, RBC

I had questions on the start to the year. Other investment banks have talked about going off an incredibly good start. I just wondered if you wanted to make a comment? And also in terms of credit, which was incredibly strong in 2016, whether you see that as a repeatable number?

Jes Staley

So we won't comment on January and February. In terms of credit, yes, obviously we're very pleased with what we did on our credit business last year. Obviously, leverage finance as well, I think we made terrific inroads last year with the sponsors' community from Apollo to Blackstone, etc. So we like that space, and one of the advantages of credit is, to a certain extent, there is a forward window. One of the realities of bonds is that they mature and generally people have to renew them, and so you can get a fairly accurate forward calendar of maturities and that allows for a stability to the credit markets.

We have a great trading desk there. It is very strong. So we like that business and we like our position in that business and there is a stability, I think, to the credit cycle which certain other asset classes don't have.

Tom Rayner, Exane BNP

Could I have two please, the first one just playing on the US card book. Could one of you give us any colour on what sort of risk adjusted margins you see on the different books within there and whether as delinquencies deteriorate a little bit you can actually maybe keep that margin stable by repricing? Just to understand the dynamics there please.

And then the second question was just on the change in methodology on deferrals. I guess if you wait long enough, whatever you do, it all washes through and becomes neutral. But when you originally moved from a low to a high percentage deferrals, I think it probably understates the true cost of running the business. I just wonder if what you've done today is maybe just reversing that out and actually now reflecting more of a genuine cost of running the IB rather than anything else? Thank you.

Tushar Morzaria

I think on the second one, yes, absolutely. The words I used a little bit are 'unmortgaging the future'. It's definitely more real time accounting, you're right. The accounting's just timing, it's cash at the end of the day. It's just making the timing differences on accounting, matching revenues and costs, more real time, so I think you get a more clearer picture of what's really going on. So I think you're right on that.

On the US card portfolio risk adjusted margins; yes, risk adjusted margins are really attractive for us and I think why that business has worked out so well for us is we've had really good pricing discipline, particularly with the partnership business which is a strong point of ours. So we're in partnerships that are priced at very attractive levels on a risk adjusted basis. So when you see impairment charges go up just because there's shift in mix delinquencies, the margins on those businesses are incredibly attractive. And there is definitely pricing capacity there, so depending on if the rates environment changes and any other changes that matter, there is the ability to flex pricing, and I think the business has done a pretty good job of being able to do that.

American Airlines production is already up and running now you'll just see that naturally normalise again over time I think.

Jes Staley

When we were talking to shareholders early last year about the investment bank, one of the things I was deeply frustrated is, if you gave me a business model which you knew had volatile revenues but had a fixed cost number, I'd never be in that business. And the truth is what this decision has done for us in the fourth quarter means I will be in a business where you have variable revenues and variable costs underneath it, which I can use to protect my margin. And I think that essentially is exactly what we did in the fourth quarter.

Claire Kane, Credit Suisse

So the Core cost number for 2016 was quite good, ex the IB compensation, and I guess there's some debate around how much of the Non-Core cost will linger when you fold it back in, so maybe you could talk around how comfortable you are about taking out those costs longer term and also how long a reasonable timeframe is to get the Group to 60% cost income?

And then my second part of the question is partly related to Barclays UK; do you see much need for investment there in the technology platform? Do you think your mortgage offering perhaps on the intermediary side is a bit below peers in terms of the service and ability to take flow?

Tushar Morzaria

On Non-Core, how much costs will linger and time to get to the 60% Group cost to income ratio; we think over the course of the next calendar year, [Non-Core is expected to report] about £1 billion pre-tax loss, [of which] half in costs, half in income, front loaded [to the first half of the year]. So when you see the Group reconstituted, a little less than half that run rate should flow through H2 2017, and then less again in 2018 [than 2017]. So I think you'll see a steady, steady march down.

When you look at the cost: income ratio, we haven't put a clock on it but a reasonable timeframe isn't way out in the yonder and aspirational. I think it is quite realistic. One way of backing into it, and you've probably done this already, is if you look at Core income of £22 billion excluding the Visa Europe Limited gain on disposal, it's £13.2 billion in costs to get to a 60% cost income ratio. And you can back in from the £16.3 billion of the Group costs that we had – if you take out the PPI charge, take out the litigation, and what I quoted to you what I think Non-Core will look like – you get into, more-or-less, the high 13s very quickly, in fact the mid-13s.

So it's not a long way to go to get there and that's assuming nothing else going on around the company. I think what's really important is, and Jes may touch on this, is that we do want the capacity to reinvest as well. We just can't keep on reducing costs without reinvesting back, and I think that's probably the crux of your second question. So by already being relatively close to that 60% cost income ratio on an underlying basis, it allows us to continue to invest for the future.

Jes Staley

In terms of technology in Barclays UK – Ashok Vaswani is here and he's done an extraordinary job – I think on the front end of using technology for our consumer business, we have 5.7 million customers now bank with Barclays through this [Barclays Mobile Banking]. And if you add who's transacting with us through the internet, that's up to the eight million customer number that I gave you before. We have millions of consumers making payments through the Pingit app. So we think technology is a big part of our consumer offering across the UK.

I'd also say one of the things, going back to that core Operations and Technology that we talked about earlier, that I find very compelling about Barclays here is that in the UK we go from the consumer to the small business to the corporate to the large institution. And we go across the product offering. And if you believe in Fintech, or if you believe that banks are increasingly technology companies with a balance sheet, the ability to use technological innovation across the entire financial platform in the fifth largest economy in the world is a huge asset, I think, for Barclays going forward.

And I do believe on the technology front, particular around the consumer, we have been in the front of that. The other important thing is to use that technology to improve the customer experience. And one of the data points that gives me comfort as I look at our business is that on average, every day, 60,000 consumers across the UK get an SMS message from us saying you are about to go overdraft. That is 50,000 SMS messages to decrease our revenue line but to increase the customer journey with Barclays.

Chris Cant, Autonomous

I just wanted to come back to your comments about UK mortgage growth, or, certainly, a tick-up in completions in the fourth quarter. I think you've said in the past that your UK deposit costs are now very close to zero. Obviously we've seen some front book spread compression, again, in terms of new mortgage pricing in recent months. I'm just trying to think about how much growth you could actually put on while staying within your 350 to 360 bps margin guidance for next year? I can't imagine it's too much given the limited room for manoeuvre on the liability side? Just wondering if you can flesh that out.

Tushar Morzaria

On that one, it's very clear that we've seen completion margins actually tick-up a little bit, so again it's balancing – we're trying to make as much NII as we can. The returns are quite attractive, so we're trying to just make the most profit that we can. I think that regarding balancing volumes versus margins, at the moment we have played that game quite well, where we're keeping our margin held up as best as we can, obviously in the face of quite competitive pricing from others. Operating in a part of the mortgage spectrum that's our core strength, it's probably towards the lower end of the risk spectrum, probably more in the re-mortgages space rather in the new mortgage space.

And that's served us pretty well and it's a good business for us and we'll continue to play in that. You know, we gave a ten basis point [net interest margin] range – 350 to 360 basis points. If you think, and Jes quoted it earlier, we printed £19 billion of new mortgages this year and the book's about £120 billion. Of course you've got redemptions and everything coming off there, so you need to be printing an awful lot of brand new mortgages at very, very low rates to start taking your entire stock of NIM down dramatically. So it does give us plenty of capacity to flex up and down as we see fit.

Fahed Kunwar, Redburn

Just following on from that, what is your backbook deposit rate in the UK right now?

Tushar Morzaria

By deposit rate on the back book, do you mean our savings book? It's 5 basis points.

Fahed Kunwar

And on the Non-Core, you talked about the cost line coming down, but on the negative revenue side you must have an idea of the maturity of that book? How long does it take for that negative revenue to go away? Are we talking a decade considering how long a tail that derivative book has?

Tushar Morzaria

It's asymptotic, so you could, of course, get rid of it if you unwind every single transaction instantaneously; some of them are quite long-dated in nature. I think it's asymptotic so it'll continue to drift down more steeply at the front end of that time line, and then it'll shallow out. And you've seen that we've taken a lot of that steepness already. And once it's folded back in, you should think of Non-Core as a little bit of a tailwind into Barclays International because, even if nothing else changes, the loss before tax of Non-Core that folds back in, where most of it'll fall back into, will diminish over time in a reasonable timeframe.

And it'll get to the point where you'll stop talking about it because there are other things in there. Every business has something that isn't carrying as well as you'd like, and you don't call everything out.

Chris Cant

Just following on from Jes' comments on the UK consumer business and the outlook for that; I know delinquency trends have been pretty good in this quarter but how do you think about the risk in that UK consumer book? And have you been taking action now to offset any potential, or what will be probably, a wage squeeze in the UK?

Tushar Morzaria

So we haven't changed our risk appetite really since probably the turn of the last cycle, since the last crisis, and we've operated within that. One of the things we haven't done is chase high margin business to protect margins, for example, buy-to-let, or try and increase market share in first time buyers or areas like that. So we've been quite disciplined in our pricing. If I look at even Commercial Real Estate, you can see how small that is. You can look through it in our credit disclosures in the Annual Report; you'll see how small that is. So I don't feel unduly nervous about anything on our balance sheet that really worries me.

Of course, if we go into a UK recession that's not a great place to be as a UK bank, but I don't think we'll do worse than anybody else. If anything, I'd like to think we'll probably outperform in a down cycle.

Joseph Dickerson, Jefferies

You've already touched on these, maybe looking for a bit of clarity on a couple. On the first, if you could just talk about the portfolio mix you've seen in cards; is this what we've seen at some of the other US issuers, whereby the 2015 vintage where a lot of players went a little bit further down the credit spectrum. This vintage is now seasoning and driving the impairments higher; is that the type of portfolio mix you're referring to or is that something else? And what would you attribute the pick-up in delinquencies to in the US, given the unemployment trends are still robust in that market? Any colour there would be helpful.

And, secondly, just on the ROE in the investment bank; if I back out the compensation deferral change and the £150 million real estate expense earlier in 2016, I'm getting about a 7, call it 7.5%, ROE. If I backed out the bank levy I'd probably get a little higher. How do you drive that and are there any further investments that are required, as it seems to drive that higher you need to move away from flow fixed income? So are there investments that you need to make in, say, US ECM, M&A and lev finance etc.? Any colour there would be greatly appreciated.

Tushar Morzaria

The portfolio mix [in our US card portfolio]; some of it is that seasoning as you pointed out. So there are 2014/15 vintages seasoning; you get to peak impairments level in the card business about two years in. And of course we did bring on a lot of portfolios at around that point and you've seen that – the growth of our balances has gone up. But having said that, I think what's more important for us is less that seasoning, it's more just the fact that one of our larger portfolios just exhibited relatively less growth than the remainder of the book. And that particular part of the portfolio was super-prime, as a relative matter, to the rest of our book.

A little bit of both but I wouldn't say it was more driven by the seasoning than it was by just the fact that our portfolio mix changed, accompanied by some seasoning of those 2014 portfolios.

Jes Staley

I think how you bracketed the CIB is good; in 2016, taking out things like real estate you're in the 7.5% to 8.5% ROE range, and obviously we'd like to get a higher number to cover the cost of capital. I do think we are competitive, that's where most of the other players in the industry were in 2016. The three areas that we focused on is; one, cost, and a lot of what we're doing around the core architecture and technology that Paul Compton and others are focused on is the desire to reduce the cost of running the operating platform for that investment bank. And we do think that there is room there to go.

What shouldn't be lost on anyone, is for three years now we have increased the profitability of the investment bank and taken down the bonus pool in all three years. So for those that wanted a compensation response to the profitability being lower than we'd like it to, you have got it. I think this management has demonstrated that we're willing to do that.

And the third one is this top line growth, and I think we showed that in 2016. I'd make a couple of comments there; one, an important part of our European IB platform is still new. We are brand new to the equities business in Europe and I think there is room to grow there on the top line. And we are encouraged by our IB fees being a record year in 2016 in EMEA, but we have more room to go there. And also, we do have a new management team in part coming in with Tim [Throsby], and I think our hope is that we can refine and improve the relative use of capital across the CIB to increase the profitability there.

I think with that, appreciate everyone coming down to Canary Wharf. Thank you.

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