Andrew Coombs, Citigroup

Good morning. I have three questions please, one on costs, one on the investment bank and then one on the long term RoE target. Firstly on costs, I was looking at slide 12 where you identified the major restructuring programs to date and I was looking at comments on the wires about 10,000 to 12,000 of job cuts this year. So the first thing was just to check if that's inclusive of the 7,650 on slide 12 or was that in addition to those existing FTE reduction levels? And accordingly whether we can gross up the annual savings in proportion, i.e. if you're showing a 50% additional FT reduction would it be £0.8 going to £1.2 billion in terms of the anticipated annual savings? So that was the first question on costs.

Secondly, turning to the Investment Bank, your FICC revenues were fairly weak compared to US peers in the past three quarters. And that's even excluding the legacy quadrant assets. Now, you said the revenue attrition associated with the leverage exposure reduction has been minimal, so just trying to get a bit more clarity on why that underperformance has continued for three consecutive quarters, whether that's a reflection of business, geographical mix and so forth.

Also within the investment bank, your compensation to income metric is 43% versus your mid 30s target. In order to achieve your target, how much is revenue upswing versus taking further costs out?

And I have one final question on group RoEs, but perhaps I'll stop there for now.

Antony Jenkins, Group Chief Executive

Well, three questions, but why don't we take your three and come back to your fourth, if we have time. So I'm going to ask Tushar to talk about costs first and I'll pick up your question on the IB. So Tushar, costs.
Tushar Morzaria, Group Finance Director

Andrew, so what you see on slide 12 is the amount of headcount reductions that's associated with the CTA charge booked in 2013, so some of that will have already been actioned, some of that will be actioned subsequently. So it's more of an accounting view of the amount we've charged off. I think some of the announcements that we also made earlier this morning were further reductions in 2014 that will also be charged during 2014 and that will be the use of CTA over this coming year. So just think of them as separate kind of numbers. Don't sort of necessarily add them together or confuse them in that way.

Antony Jenkins

Okay, on the IB question around FICC, clearly we have seen some weakness in FICC revenues. There is a contrast between the European and the US players in the marketplace. The US players have done better but we continue to remain strong in the FICC business, as Tushar observed. We're about middle of the pack for the European players.

And finally, on the compensation ratio, we do think that this was a soft year for the reasons that I've said in FICC. We do expect a recovery in income but we also think that the ratio was impacted somewhat by one-off litigation costs on the income line. And of course you'll continue to see the flow through of the benefits of cost reduction. So it will be a combination of the cost reduction on compensation and some growth in income. Next question please.

Operator

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

Michael Helsby, Bank of America Merrill Lynch

Morning gents. I've got three questions on the Investment Bank, if I can. Firstly just on the revenue, Antony, you just mentioned that you expect FICC to recover in 2014. Clearly the second half of last year saw a big step down at an industry level, and for you guys, as well in FICC. You've had your January accounts now for well over a week and I was wondering if you could tell us if that year-on-year step down in FICC experienced in the second half of last year has continued into January versus last year. So that's question one.

Question two, I'm just a little bit perplexed on the messaging on costs in the Investment Bank because, clearly the Investment Bank is one of the few divisions where you've actually given a firm cost target. Performance pay is up 17%, revenue is down 7%. You're saying you've cut 1,400 jobs but actually the headcount's up year-on-year and is actually up 700 since the first half of last year, i.e. first half of 2013. So if you could just give us a little bit more granularity around that, I would certainly find that helpful.
And then finally just on strategy in the Investment Bank, Tushar, I think you promised to give us an update on strategy post this balance sheet review on risk and leverage.

You clearly made great progress on leverage; I think people are recognising that. But you've had to increase your Core Tier 1 target to 11.5 to 12. If I adjust the 2013 profit for litigation and cost to achieve, and allocate capital in the IB at 12%, then it looks like you've made a RoE of about 8%; that's clearly well below your cost of equity. Even if I include the £900 million of costs saves that you've told the market, it still only gets me to a 10% RoE.

So I think, you know, quite rightly what's happening this morning is people are disappointed that you've not made some new commitments in the Investment Bank; so can you explain to us what we're missing and how you're going to get the Investment Bank RoE above cost of equity? Thank you

Antony Jenkins

So Michael, let me just clarify my comments about the FICC income recovery were not specific to 2014. I'll ask Tushar to talk briefly about what we're seeing in the first few weeks of this year and also on your costs question and then I'll come back to your point on strategy.

Tushar Morzaria

So Michael, Tushar here. In terms of the first few weeks in FICC, you've got to be a little bit careful as it's only been a small number of weeks so we don't want to extrapolate too far. But probably no surprise that January turns out to have materially stronger activity than we've seen in the second half of last year. It's really too early to call whether this quarter's going to be any better or worse than this time last year, so I'd be cautious of getting you to extrapolate too much there. But a stronger start to this year than the second half of last year, no surprise there.

In terms of headcount in the Investment Bank, your question around seeing the reported headcount going up when we're announcing job losses. You've got to be careful when you look at just headcount in isolation. I'd really encourage you to focus more on the cost line. The reason I say that is that there are occasions when headcount will go up, but the costs will go down, and I'll give you a couple of examples. One is when we're doing a lot of right-shoring, moving functions and processes to other regions, quite often we'll run those processes in parallel, so you get actually a significant leg down in your cost base but in the interim the headcount reported goes up.
Another good example is insourcing. I'll give you an example, so technology work or other processes that we bring in-house our reported headcount goes up but it's actually a cheaper way to deliver that function or process. So I'd caution you a little bit, don't get too focused on headcount, and focus on the cost line. I'll hand back to Antony on the broader strategic question - but you asked me about a strategic review of the IB.

I'd say, Michael, my number one priority over the last quarter or so has been focus on leverage and to get the company in a position where we get the bulk of the leverage issue behind us and have a good platform to build from here. I mentioned at the end of my prepared remarks that the two areas of focus for me now are balance sheet optimisation and cost reduction.

So in terms of talking to you more about what that really means, particularly on the balance sheet optimisation, as we do further work and as there are further things to share with you, we will do that. But think of it as an intense focus on leverage, rotating onto a much more strategic review of balance sheet optimisation. Antony.

**Antony Jenkins**

I think that's well said, Tushar, and as we communicated this time last year, we laid out six financial commitments. As you can see, we're on track for those commitments at the group level and the return in the IB is really a function of the capital consumed and, to a very large extent, the driving down of the cost base. And as we've talked extensively in the presentation, we've made good progress particularly on the balance sheet side of it. We expect to make increasing progress on the cost side and that is the path that we will take to get the returns above the cost of equity, which actually as you know, we're deeply committed to. Next question please.

**Operator**

The next question is from Raul Sinha of JP Morgan.

**Raul Sinha, JP Morgan**

Hi, good morning, gents. Could I have maybe one question for Antony and one question for Tushar, if I can? Maybe starting with Tushar first, just on the Core Tier 1 ratio range of 11.5 to 12%, obviously you say that there's a management buffer in there, but the 1.5% seems to be quite a high number right now, presumably driven by the fact that you've got a lot of uncertainty on where Core Tier 1 requirements are in the UK. How much do you think that should reduce once you get clarity on what the other buffers are that are coming into Core Tier 1? And then is there a possibility that your 11.5 to 12% Core Tier 1 ratio range actually starts rising as these buffers come in?
Tushar Morzaria

Okay, you want me to take that first? The way I think about the 1.5% buffer range is that it's trying to future proof us until we get to end state and I just think it's a prudent way to be running the company. The kind of stuff that we haven't assumed in there, for example, are the countercyclical buffers or sectorial buffers which may or may not be relevant at that time.

I think the real answer to your question, Raul, is we said no more than 1.5%, and we'll recalibrate that buffer to the prevailing regulatory environment at that time. But, for example, if we did see the likelihood of a countercyclical buffers coming in, we'll probably be on a slightly larger buffer in anticipation of that. To the extent that we don't foresee that, we would run a bit tighter. So we will be commercial and sensible about that, but I doubt if it will be any higher than 1.5%.

Raul Sinha

And on 12%, the top end of Core Tier 1, is there anything in the current rules that leads you to believe that you might have to raise that going forward once you get clarity?

Tushar Morzaria

No, nothing. And on the things that are variable, G-SIFI charge may come down with a bit of luck; we'll see how that goes. Pillar 2A I've mentioned to you, you should not just take the extrapolation of 1.4% and assume that's permanent. It may go up, it may go down, and we'll obviously do what we can to bring it down. But that's an annual review, in fact it happens more than annually, so that's a variable. But I think 1.4% is a reasonable point to assume, given all the information we have now.

Raul Sinha

Thanks, Tushar. Antony, if I can just turn your attention onto costs, and I guess the underlying difficulty that people face today is forecasting what is a very difficult revenue environment, especially in fixed income which can be quite volatile. It was quite helpful at Transform last year when you gave us absolute cost guidance, £16.8 billion in 2015. But obviously that was based off an environment of rising revenues also included within the Investment Bank. Is it fair to assume that if the revenue in the Investment Bank disappoints, as it has done in 2013, then that £16.8 billion cost number could also potentially come down maybe because of lower performance related costs?
Antony Jenkins

Let me make a couple of comments on costs in general. The first is that there is a lot of tactical cost opportunity within the group and we talked about some of those things today, particularly the reduction of 820 jobs in the management area. But there's also a lot of strategic opportunity in the group, from the automation of our retail businesses for the customer, but also in the operation of our institutional businesses, particularly in the middle and back office. It has clearly taken us time to put the components in place to deliver that, but I feel pleased that we delivered the cost target last year, notwithstanding that we had to deal with headwinds around things like regulation.

So, as we said in the speeches, both Tushar and I, we don't expect progress to be linear but you should expect an acceleration on progress on cost reduction over this year and next. Of course, we will continue to revisit the targets in the light of the performances of the businesses and it would be foolish of me to rule out that we wouldn't potentially have a different cost target in a different revenue environment. But for now we remain committed to the £16.8 billion in 2015.

Raul Sinha

Great, thanks very much.

Antony Jenkins

Next question, please.

Operator

The next question is from Chintan Joshi of Nomura

Chintan Joshi, Nomura

Can I have three as well, please? Firstly, just a follow-up on the capital question. If I try to reconcile slide 21, which is saying 10.4% plus 1.5% management buffer, which gets you to 11.5 to 12%, with slide 35, it adds up to 10.5%. How should we reconcile these slides?

Antony Jenkins

Sorry, could you just ask the questions all together so that we can figure out how to deal with them most effectively.
Chintan Joshi

Sure. The second question was for 2015, RWA target for £440 billion is ahead of what you are already at currently, so the question is why shouldn't it be lower, are you expecting some kind of add-ons? You already have £54 billion Exit quadrant which should be an element, i.e. it should reduce the 2015 number, and so what is your assumption there? Why hasn't this target been brought down already?

And then the final question is I'm just trying to think from a regulator's point of view that they weren't very happy in June with the Barcap balance sheet at a trillion dollars. You've got it down to 800 and that probably goes to 700 with your measures, but then it'll go also back to 800 with the change in the rules from Jan 2014. So the question is, do you feel in end state that the regulator will still be happy with the 800 billion Barcap balance sheet? Thank you.

Antony Jenkins

I'll let Tushar answer your other questions; just let me respond to your last one. Actually, the regulator has asked us to deliver on a leverage ratio expectation by the middle of the year and, as you know, we've substantially done that by the end of last year and we have shared our plans with the regulator. So I think that we will deliver on our commitments to the regulator and, as Tushar described, in other areas of capital as those evolve, we'll deliver on those commitments as well. But on the other technical points, Tushar.

Tushar Morzaria

Yes, Chintan, so I think your first question was just understanding the difference between slide 21, which showed our capital stack minimum requirement of 10.4%, and slide 35. The real difference is that there's no Pillar 2A in slide 35. You may have seen slide 35 in the past and you'll see we sort of added a couple of, well actually three arrows so you can see where Pillar 2A would insert itself inside that capital stack. So if you put an extra 1.4% into the dark blue area, you get to 10.4, above which you run a 1.5% buffer that gets you somewhere between 11.5 and 12%.

Chintan Joshi

So we should add 1.4% to slide 35 effectively?

Tushar Morzaria

That's right, to make it really easy for you, where you see Pillar 2A CET1, you can add 1.4% in there.
Chintan Joshi

Understood. And the breakdown of that 1.4%?

Tushar Morzaria

Yes, so we're not going to provide that breakdown. The PRA has been in dialogue with the banks and they've only recently granted permission for the UK banks to discuss the impact of Pillar 2A, which we're doing today. So we're very grateful for that and it's good constructive dialogue we've been having with the PRA, but we're not in a position to provide you with a breakdown of that, so I can't do that.

Chintan Joshi

And the RWA target.

Tushar Morzaria

Yes, the RWA targets. So, as you pointed out, we're sort of there or thereabouts at £440 billion. I think, all this comes down to my earlier comment, which is we need to have Barclays running at equilibrium across leverage and risk weighted assets. At the moment because we're still doing a little bit more work on leverage, by reducing risk weighted assets you're not necessarily freeing up leverage capital. I think there are continued reductions that we have in place, you can see that in our Exit quadrant, we targeted £36 billion of RWAs, so we'll continue to work to get that down. And we'll look for opportunities to reinvest that capacity. I'll give you a couple of examples. You see our Barclaycard and UK retail businesses, we've actually grown RWAs; they have attractive marginal rates of return. And we'll continue to be commercial and take opportunities where we can, so that's where I'd guide you towards for now.

Antony Jenkins

Next question, please.

Operator

The next question is from Fiona Swaffield of RBC.
Fiona Swaffield, RBC

Good morning. Could I ask a couple of questions please? Can I just clarify on the Common Equity Tier 1 ratios, if or when the CCB comes in, would the management buffer go down, so the 1.5%, could we assume that? And the second area is, you gave some interesting comments on repositioning the repo in prime brokerage to equity financing. Could you give us some information on how important that's been for revenue or RoA basis?

Sorry, just one last one, on the deductions against Common Equity Tier 1, could you help us a little bit on how those could potentially be reduced over time? Is there any scope there, for example, on PVA?

Antony Jenkins

Thanks Fiona for your question. I think Tushar's going to deal with them for you.

Tushar Morzaria

So I'd go back to my earlier comment, which is, you know, we'd recalibrate the buffer when we get to those points.

So if you ask me hypothetically if we've got a 1% countercyclical buffer at some point in the future, would we run a 1.5% buffer above that, it's so difficult to answer that question until we get to that point. It really comes to the outlook and making sure that we're future proofing ourselves, so it may be lower, it may not be. But I guess I'd always encourage you to think we will be transparent and continue to recalibrate that buffer based on all the information that we can anticipate for a reasonable point in the future.

Moving on to your other question on repositioning around the repo book; you know, it's relatively small and modest. Towards the end of the year we rotated from a leverage exposure computation – remember, this isn't the same as on balance sheet – rotated about £14 billion out of fixed income repo into equity financing. It's really an example of where, because we'd overachieved to our internal objectives around reduction leverage capacity, it just shows how we can be smart around repositioning our balance sheet to soak up that capacity and generate attractive returns.

Equity financing returns tend to be somewhere around four times better than fixed income repo, so it's a good business; it's nice repeat business. And it just gives you a flavour of the kind of things that we're doing when we're talking about optimising our balance sheet and improving our return on assets profile.
Your final question on CET1 deduction, yes, there are some things that we can do. A good example will be that we had a clarification in EBA rules around investment in your own shares, which actually created a drag for us in our Common Equity Tier 1 in the quarter of somewhere around seven basis points. To the extent that, for example our pension funds invest in Barclay’s shares, and mostly indirectly but through trackers or fund holdings, then that becomes a deduction from capital. That's obviously something we can do things with. And there will be opportunities like that, not all of them we'll be able to do things with, some of them are deliberately designed to be permanent deductions, but where we can we're intensely incentivised to be optimal about that.

Antony Jenkins

Okay, thank you very much Fiona. The next question, please. Could I ask callers to restrict their questions to one, and a maximum of two, because we've got a lot of people who want to get on the line? So next question please.

Operator

The next question is from Joseph Dickerson of Jefferies.

Joseph Dickerson, Jefferies

Hi, good morning, thank you for taking my call. I have two brief questions. The first being how much of the £300 million of foregone income associated with the leverage plan can be offset by the shift to bonds in the liquidity pool? And secondly, I noticed you've not referenced a specific cost of equity in the documents this morning. I mean, surely it's fallen materially below the 11.5% that you've given in the past due to the de-risking and deleveraging of the business and would just ask for your comments on that. That's all I've got. Thanks.

Antony Jenkins

Tushar?

Tushar Morzaria

Thanks Antony. The £300 million, the way you should think about that is an opportunity cost of foregone revenue, so if we were allowed to run, obviously, a larger leverage exposure, we could put more assets on the balance sheet and earn a return. How much of that could be mitigated by optimising the liquidity pool? You know, some of it, I guess we use the liquidity pool to make sure that the company has a robust liquidity position. I don't think of it as a profit centre itself. I wouldn't get too drawn into that being a management action to offset some revenue decline.
In terms of cost of equity, I'm glad you think our cost of equity is reducing. You know, it's something that will be driven by the market and the market prices our cost of equity. There are various ways in which you can back into it. We haven't, as an internal matter, to date, changed any of our assumptions but if the market re-prices to a new level, we'll be responsive to that obviously.

Joseph Dickerson

Thank you.

Antony Jenkins

Next question, please.

Operator

The next question is from Peter Toeman, of HSBC.

Peter Toeman, HSBC

Morning. I'm still struggling to see how the investment bank could make a cost of equity return on the basis of 12% core equity Tier 1 on the £221 billion of CRD IV assets and I'm not quite sure what assumptions you're making long-term about the cost income ratio, but, you know, the comp to income ratio maybe has 8% points to fall, but that wouldn't suggest to me that the business would be able to make a cost of equity type return.

Antony Jenkins

It is the product of what is on the balance sheet and primarily the cost base, but Tushar, if you want to add a couple of points

Tushar Morzaria

To build on Antony's response, it's just reinforcing what Antony said really, but, one of the things that's inside the investment bank, that's difficult for you guys to look inside because we haven't provided you that detail, is what goes on in our Exit Quadrant. If you were to look at the investment bank and try and see the impact the Exit Quadrant has on the IB, you'd see that there's a reasonable drag in there. And now, as I mentioned to Michael earlier on, my focus up till now was being really focussed on leverage, and getting really after that, as we're getting to optimise the balance sheet, over time when we've got things to share with you around that, we will. But, I think you'll get a very different picture if you were to strip out the Exit Quadrant. We'll leave it at that for now, I think.
Antony Jenkins

Just as a point of principle and I'll reiterate something I've said in previous calls, I expect all the businesses in Barclays to have a track to get their return on equity above the cost of equity. Those businesses have those tracks; they're executing those tracks and you will begin to see the benefit of those plans, as you can already see in the investment bank with the excellent work done on the Exit Asset Quadrant. Next question, please.

Operator

The next question is from Chris Manners of Morgan Stanley.

Chris Manners, Morgan Stanley

Good morning, Tushar. Good morning, Antony. I had two questions for you, if I may. The first one is about the leverage ratio target. You're saying, you're, sort of, expecting it around 3.5 to 4%, but when we look at what the letter that Carney sent to Osborne, he was talking about scaling up leverage ratio requirements proportionately with the CET 1 ratio requirement. And obviously, you're sort of now targeting 11.5 to 12% in 2019 of CET 1, so you add one and a half of AT 1 on top of that, if you were to scale up the 3% in that ratio, you're getting to more like 4.5% that you might need. Obviously, you know, we're not there yet and there's a bit of road to travel. I just thought I'd ask you how would you react if you saw what the FPC was thinking, moving in that direction, what other levers do you have to pull over and above what you've already executed and obviously, the £120 billion in the quarter's very good.

The second bit was, just on the cost base, obviously, you know, and we appreciate the hard target of £16.8 billion you've given us for 2015. How shall we think about the trajectory beyond that? Would it, sort of, be growing at CPI, or in line with revenues and keeping a stable cost income ratio? Or actually, have we got more benefits from Project Transform that would actually be filtering through into more streamlining in 16? Thank you.

Antony Jenkins

Chris, let me just answer the question on the cost base. We haven't provided any guidance beyond 2015 and we're not going to. But, yes, as I said in my remarks, cost is the strategic battleground for the industry, so you can expect us to continually focus intensely on costs going forward. Do you want to take the leverage ratio?
Tushar Morzaria

Yes, so Chris, I mean, the reason why I think it's appropriate and prudent to run the company at 3.5 to 4% is partly for the reasons you laid out. Minimum leverage ratio requirements may or may not increase. I think you've got to be a little bit careful at wondering where it's going to be gross, stopping reference to 12%. You can see that our minimum requirement would be closer to 10% and I would have thought that would be the jumping off point, rather than all the way to 12%. But, you know, we'll see. The FPC are doing their review. They said that it will take 12 months to the conclusion. We'll do everything we can to get ahead of it, to the extent that there is a new minimum floor. I think we feel very well positioned to be able to cope with that, were that to be the case.

Chris Manners

Thank you. So, I guess I was just asking you there, are there any more, sort of, easy wins or bits that you could tweak if that number was to go higher, that you've thought about, but not laid out, because you don't need to do them yet?

Tushar Morzaria

Well, we've laid out the plans that we have. If we've got new plans, we'll share them with you.

Chris Manners

Thank you.

Antony Jenkins

Okay. Next question, please.

Operator

The next question is from Tom Rayner of Exane BNP Paribas.
Tom Rayner, Exane BNP Paribas

Good morning, chaps. Could I have two questions please? The first one, the investment bank, sorry to sort of, keep coming back to this, but, Antony, you had talked about, over the last year a few times, the cost flexibility in the investment banking business in the face of poor revenue. Clearly, I could quote a few stats, but I won't, it doesn't seem to have been much evidence of this cost flexibility in 2013 and my sort of question is, what happens if revenue disappoints again in 2014? It sounds as if the cost plan you have is already quite a stretching one, so I just wonder what other levers you might be able to pull and then, my second question is on capital and dividends. Do you want me to do that now?

Antony Jenkins

Yes, that'd be helpful.

Tom Rayner

Yes, I mean, just looking at your new thinking around the point of arrival and common equity Tier 1. It looks like 12%’s not a bad number now to think of as a go-to. My question really is, given that your own, targeting is to only get to 10.5 by 2015, why would you be so keen to increase the dividend pay-out at this stage? And why would you be thinking of increasing, say, beyond the 40%, once you get to 10.5% and not wait until you’ve got to at least the 12%? Thanks.

Antony Jenkins

Yes, so Tom, I’d really just reiterate what we said on cost in general for the Group, but in particular for the IB. We are going to drive the cost base down across the organisation. That takes time, because you have to address it, both structurally and tactically as we described, but you should expect accelerating momentum there. Obviously, if we believe that we're in a structurally lower revenue experience for a prolonged period of time, that will force us to go back and look at what more we can do in the area of cost. But it comes back to the discussion that we've had on this call a few times now, from different questions about how we get confident in the track of the investment bank to deliver returns on equity above the cost of equity. And I think you can see what we've achieved on the balance sheet and you can expect us to achieve similar sorts of moves on the cost base, which will allow us to get there with confidence. And Tushar, on the other point.
Tushar Morzaria

Yes, on dividends and capital accretion. Hopefully, the message that I wanted people to get across is that capital accretion is just as important as capital distribution at this stage. So, when it comes back to, we guided the market to a 40 to 50% pay-out ratio, we're now getting very specific to say, that that will be at 40% until at least reaching 10.5% CET 1. To make sure we have the right balance between accretion and distribution. We certainly haven't said that we would increase it at that point. We'll review it at that point and if capital accretion is still a priority, we'll continue to reflect that in our dividend forecast.

Antony Jenkins

Next question, please.

Operator

The next question is from Chris Wheeler of Mediobanca.

Chris Wheeler, Mediobanca

Yes, good morning, gentlemen. Of course, two questions. The first one is, you appear to not have mentioned the cost target you set last year for 2014 of £17.5 billion. Is that something you think might now move up as you actually have to perhaps spend more to get down to the £16.8 for next year? Or will it, pretty well be the same number that you're focussing on. And the second question really is on page 41 of your release, which is your total incentive awards page. Can you perhaps give us a clue as to how this might look next year, given obviously the changes that are required, given the new EU requirements on bonuses being capped?

And, just perhaps talk a little bit through what that might mean to efforts to push down the comp ratio in the first year of the new scheme, given the fact that you're going to have to, I assume, put in place some additional payments, which are going to be based on some form of revenues, which obviously may or may not be met. So I'd just be interested to know what that might mean, in terms of both disclosure, but also what it might mean, in terms of the tough job of pushing down the comp ratio. Thank you.

Antony Jenkins

Okay. Tushar's going to talk about the comp and I will talk about the costs. So do you want to do comp first?
Tushar Morzaria

Yes. So, what I'd say to that is, we operate a total comp philosophy. So whether it's a shift out of variable into fixed, which is essentially what the CRD IV regulation results in, we still have a meaningful portion of our compensation in variable and we'll obviously have the ability to vary that. The only slight problem with that is, of course, there's an accounting matter, because we tend to defer most of our variable comp. It tends to have a slightly delayed effect, so you'll see the benefit of any reduction in variable comp in ensuing years, rather than in the year in which we grant it. But at least you can see what to expect in those ensuing years and we showed those disclosures on the pages you referenced. So, you know, we have plenty of variable comp that we can vary just with a slightly delayed effect. Antony.

Antony Jenkins

Thank you. Just on cost, we've reiterated £16.8bn target for next year. We've said that we expect the direction for this year to be downwards, but non-linear. I still think it's good to think of the £17.5bn as a way point on the road to £16.8bn.

Chris Wheeler

Thank you.

Antony Jenkins

Next question, please.

Operator

The next question comes from JP Crutchley of UBS.

JP Crutchley, UBS

Morning all, JP here. Two little questions, actually one observational question, I guess, on the investment bank and I know this has been slightly done to death. But I guess the observational question on the IB is, if I think about this or look at it through a shareholder lens, it strikes me that we're in a situation here where clearly the capital demands in this business are moving up over time and are very much dictated by constraints or regulatory influence beyond your control. It appears, from the way you're talking in terms of compensation ratios and the like, in the short-term direction, if not the medium-term direction on that, is somewhat again dictated by events outside your control and the competitive framework largely put in place by the US banks, which are working to a different timetable and framework in terms of implementation.

Antony Jenkins

Yes. JP, I'm sorry, but we're very tight for time, so if you could just ask your question?
I guess the question from a shareholder perspective, which we come back to, we've gone round a lot, but I think it is incumbent that we try and get to the bottom of it, or come back at another stage and debate this in more detail. If you fundamentally, if your costs are dictated by external influences and the competitive framework of other investment banks, the cap is dictated by the regulatory environment and is set high, and the revenue is obviously driven largely by market, are we not in a position where, fundamentally, the investment banking proposition is always going to deliver a sub-par return, relative to its peer group, which is, you know, a difficult question to reconcile from a shareholder perspective. Now, I appreciate you probably can't give a categorical answer to that today, but I think a lot of what we're flailing around here on, is trying to address that situation and get into acceptable returns over time. I know you've commented on that, but I think that's, kind of, where we need to get a final answer.

But two quick questions are that I'd just like to touch on, which are probably more concrete. The balance sheet reduction, I mean, clearly you set that out fairly clearly. The £60 billion versus the £140bn done, I mean, why to end 2015, rather than any faster timescale on that? I just want to understand the sensitivities on the deliverability and execution on that. And the second one, just on regulatory charges and PPI, which I know has been a feature more of other banks reporting this time round. You, obviously, took the elephant charge at the first half stage, but your charge is probably looking, or your provision is looking, a bit light against some of the stockpiles that your peers will have at this stage. I just wonder if you can comment on that.

Okay. Let me deal with your observational point first. Tushar will answer your second two questions. On your observational point, we've talked about this many times on the call. Basically, every business in Barclays has to get to a position where it can deliver returns above its cost of equity, otherwise we're not going to allocate capital to that business. We think we have a track in the management of the balance sheet, but also, in the management of the cost base. It's clear to us, that the cost base has to come down in the investment bank. That means that we have to employ fewer people, which is true across the Barclays Group, through automation particularly of the middle and back office and certain functions in the front office. As we do that, we can then bring together revenues, cost and capital, as you said, to generate the returns that we seek. And that is the body of work that we're engaged on at present. Tushar, do you want to answer the other two points?
Tushar Morzaria

Yes. Just briefly JP, could we go quicker on the £60 billion, well, we've said by end of 2015. We feel confident we can do that. You'd obviously appreciate that these things are non-linear, so the incremental pound gets a little bit trickier than the first. But I feel very confident. I also feel that, getting to 3.5% in 2015 feels just very appropriate, given where we see regulation heading and we need to be commercial about these things.

In terms of PPI and our provision, we obviously look very closely at this each quarter, each month for that matter. We've given you our sensitivity analysis, so folks can make their own judgements. We feel, obviously, pretty good about where we're provided and we'd have made adjustments if we didn't feel that case. So, I'm not sure there's much more I can add. I just urge you to look at the sensitivities and people can form their own judgements, should they wish to do so.

Antony Jenkins

Okay. I think we've got time for two more questions. If you could make them brief and punchy, it'd be appreciated by the other callers. Next question, please.

Operator

The next question comes is from Fahed Kunwar of Redburn.

Fahed Kunwar, Redburn

Morning. I've got another couple of questions. The first one is on the investment bank compensation. There's always been a step up to the 43% and I think JP touched on this in the last question, but, I assume part of that is because the US investment banks are starting to pay out more. But obviously, there is a regulatory disadvantage there, as they operate at probably close to a 10% Core Tier 1 threshold. So how sustainable is it in terms of competing with costs in the IB and actually being able to generate an ROE there, when your peers can operate at a lower capital threshold and therefore are likely to pay. Or is it, kind of, franchise losses in certain areas that you have to expect going forward?

And the second question was, just looking at the Group RoTE for a second, you've given RoTE adjusted at 5%. If I take out the costs to achieve, I get to about 6.5%, then taking forward your cost reduction of another £2 billion on top of that, you get to about 8.5%. Now, you've said by 2016, you'll have 11.5% RoTE. Now, the loan impairment charge at the moment is 64 basis points, which is well below the 90 basis point long term average, so I appreciate you've answered this question on the investment bank, but across the rest of the business, it looks like revenue is the only real lever you can pull, to make up that 300 basis point shortfall by 2016. Where do you see that coming from, outside the investment bank?

Thank you.
Antony Jenkins

Right, that's a long and complex question, which, let me give you the shorthand answer. We've laid out a clear direction of travel and aspiration to have our RoE above cost of equity in 2016. We remain confident we can deliver that. That will be through a combination of the management actions we've described, particularly on cost. We do see revenue growth opportunities in many of our businesses. In Africa, in Corporate Banking, in Barclaycard and Retail. And on Investment Banking, I don't want to repeat what I've said many times on this call. We will deliver a track where the returns will be above the cost of equity over time in the investment bank. We've talked about that many times and we will deliver that. Last question, please.

Operator

Our final question this morning is from Martin Leitgeb of Goldman Sachs.

Martin Leitgeb, Goldman Sachs

Yes. Good morning. Just a quick question with regards to the situation in the US, in particular regarding the Tarullo proposal. Could you just give us a quick update on where we are there now, in terms of what is your total assets of the Intermediate Holding Company? Is that roughly the $330 billion we see as last reported in the US broker dealer and I think the last reported capital position at Tier 1, that was around $6 billion, but I think that was 2010. Is that still accurate? And also, if you could give us just your outlook there. Is it going to come shortly? Will this be disruptive to your business, or how will you adjust your business with regards to that new proposal? Thank you.

Tushar Morzaria

Yes. So in terms of, for clarification around Section 165 Intermediate Holding Company, we are expecting it. We're expecting it soon, don't know exactly when, maybe in the first half of the year. I don't have the inside track on that. In terms of disruption to our business, obviously we'll need to wait and see exactly what the rules are, before we can give you a categorical response, but we certainly incorporated, at least our anticipated expectation of what IHC will be for us, into our leverage plans, so that the plan is holistic in that regard. In terms of the exact assets and capital, I'll just refer you to the public disclosures we have there. I haven't brought them with me, but, you can get them from filed accounts if you need to.

Antony Jenkins

Thank you, operator. Before we close the call, let me just reiterate three points, which I believe typify why we feel particularly positive about Barclays’ prospects for 2014 through a year of substantial transition in 2013. The first is that the performance we've reported today shows the tremendous value in having the breadth and diversity of Barclay’s earnings profile and we have seen continued evidence of the strong fundamentals, which are essential for our longer term growth.
The second is, that we have started to significantly de-risk the business, addressing the leverage challenge and have much greater certainty on what the future holds, particularly in terms of regulation. And third, the strong progress we have made on our Transform programme in 2013, supported by all 140,000 of my colleagues in Barclays, means we are well set to reap the substantive benefits of that work in 2014 and 2015. Thank you all for taking the time to join this morning's call. Tushar and I look forward to seeing many of you in person in the coming weeks. Thank you.

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