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Analyst Transcript Q&A

Michael Helsby, Bank of America Merrill Lynch

Morning, everyone. I've got just a couple, if I can. Tushar, just on the FICC revenue, I was wondering if you could give us a little bit more colour, if you can, in advance of Thursday. I think you specifically highlighted commodities as an obvious area that you've pulled back on. Can you give us the revenue and, if you've got it actually, the cost contribution for the commodities business in the first quarter of last year and what the actual number was in Q1 of this year? And if you've got the RWAs for commodities that would be really helpful as well. That would be question one. Then on bad debt, that was a very strong performance in the first quarter. You pulled out £46m of bad debt release in the IB but then you're saying the outlook's very benign, so is there anything in Q1 outside of the IB that means that we can't use it as a base for the rest of the year given the outlook, I think, remains pretty strong.

And then finally on costs, if I can, I think again Q1 was extremely strong, very notable you exclude the levy in UK retail, Barclaycard, Corporate, Africa and Wealth actually from a run rate perspective. You mentioned the Transform cuts in the IB are yet to come through on a quarterly basis. So I take it we can still look forward to quarterly reductions outside of the IB as well?

Tushar Morzaria, Group Finance Director

Thanks, Michael, three questions, I'll take them in the order you asked them. First of all, you asked for some specific colour around commodities, revenues, costs, RWA; let me give you a more general comment, then I'll come back to commodities. There were a number of factors that explained our variance to peers that have reported before us. As I say, we were perhaps at a slightly higher starting point given our relative performance in Q1 last year. There were some adverse currency moves, Sterling strengthened across all currencies and, as you are aware, we do generate a lot of revenues outside of Sterling.

I mentioned that our business mix going into the quarter was probably not helpful given that, at least for us, macro products were the trickiest asset class in the quarter, and then the repositioning. On the repositioning, the only reason I called out commodities is because it's the one that's been publicly reported, but there are others, so I'm somewhat reluctant to start quoting numbers on commodities, particularly in the level of detail that you want. Commodities, along with some other repositioning, was a meaningful contributor but not the only contributor. It was a combination of all of these factors and commodities was one component of the repositioning that took place and we'll talk more about that on Thursday.

On the second question of impairment, the £46m released in the IB, that's correct. I'm not sure you should, multiply that by four, or expect similar releases in subsequent quarters, these are somewhat episodic and I don't expect these to be recurring. So perhaps a better impairment quarter than it would have otherwise been outside of that release. The outlook, however, does appear quite benign and our indicators are at relatively low levels. So it's difficult to see at the moment what the catalyst would be for a spike in impairment, but I certainly wouldn't be expecting significant recoveries coming back into those numbers.

In terms of costs, the question around should we see continued reduction in costs over the year, that is our intention. Hopefully you've seen the first tangible quarter where our cost base has materially stepped down off the back of a lot of the work that we've been doing leading up to this since Transform kicked in, roughly this time last year. We did give a cost guidance of £17.5bn for this year. We do think we'll do better than that, obviously somewhat reflecting the weakness in income that we've seen, specifically in FICC.

Our guess is here we will probably be somewhere around £17bn for the full year. I'll put a couple of caveats in there as you'd expect me to do. One is currency rates, obviously if there's a big move in currency rates we'll either do better or worse depending on which way those currency moves go. And the other thing I'd put out there is, if there are any significant litigation type events that we weren't able to anticipate and, to the extent that they're material, we'll obviously call them out. But, you know, all things being equal, constant currencies and no significant litigation, somewhere around £17bn is where we think we're heading. We'll talk more about costs on Thursday as well when Antony does the update on strategy.

Michael Helsby

Thank you, that's very helpful.

Tushar Morzaria

Thanks, Michael. Shall we move on to the next question?

Manus Costello, Autonomous

Good morning. I have a couple of questions please on revenues outside of FICC. Firstly, I wondered if you could give us a bit more colour around the Corporate Bank. You were talking, I think, about the social housing portfolio causing some volatility. Can you give us some indication of what to expect there and whether this is the right base for us to be looking at as a clean run rate, because it was a bit weak in Corporate certainly versus my expectation. And, secondly, one of the areas you've done well in was in Investment Banking advisory, you had a number of high profile departures over the last few weeks, I wonder if you think that the pipeline is strong enough to withstand this, and we should be having this kind of level of advisory revenue in the model or whether or not you would expect some franchise weakening as cost cuts and headcount reduction come through there as well?

Tushar Morzaria

On the Corporate Bank, the ESHLA portfolio, for those that may not be familiar is Education, Social Housing, Local Authorities. It's a very specific portfolio of long-dated loans that are accounted for on a mark to market basis and with very, very long maturities. Obviously given the very long duration of these transactions they can be a little bit volatile as a function of interest rate spreads and various other market factors. So we saw a £58m reduction in corporate banking revenues as we just fair valued those loans at quarter end rates.

The way that I think about it is that they will bounce around as market rates bounce around. They are super high quality, there's absolutely no impairment that I would be anticipating ascribing to these assets, but because they are very long duration, they do bounce around on a mark to market basis. So I tend to strip it out and just look at corporate revenues excluding that.

Manus Costello

Does the value go down, Tushar, as interest rates go up; do you assume that relationship?

Tushar Morzaria

There are a number of things. You've got credit spreads in there as well and also our own funding levels, so I can't give you the easy sound bite, but there are a number of factors there. But at least the way I think about it, I tend to look through that and look at Corporate Bank revenues excluding the movements in ESHLA. In terms of advisory, you're right to point out we have a pretty decent franchise there, our pipeline is strong, stronger than it was this time last year and stronger than it was at year end, and you've seen some of the headline transactions that we've been involved in.

In terms of significant departures, I don't anticipate that will weaken the franchise. We feel very good with the depth of talent that we have in the banking divisions across all jurisdictions. There are some headline departures in the US, but I don't anticipate that these will be franchise damaging in the US and certainly not in the UK, so we still feel pretty well positioned there.

Manus Costello

Okay thank you.

Tushar Morzaria

Next question please.

Andrew Coombs, Citigroup

Good morning, if I could ask two questions on revenues. Firstly, returning to fixed income, I fully appreciate your point about Q1 being a tough comp last year. Also in the business mix and you drew out the point on commodities. But your Macro product is down 48% year-on-year and Credit products are also down 33% year-on-year and that excludes commodities. So I'm just trying to get a feel in terms of the potential losses here, from downsizing business units across both of those streams, and is it fair to say that it's not a fair reflection of the underlying base level? That would be my first question.

The second question is more on the retail and business bank. If I look at your interest margins, they're flat to up quarter-on-quarter across every division, but the revenues are down in every division. Is that just a function of the shorter number of days in the quarter?

Tushar Morzaria

Thanks, Andrew. On FICC, I think really the heart of your question was what is the prospective run rate for this business? I think that's best addressed on Thursday when we talk more about how we see the Investment Bank going forward from this point. You are correct to point out that macro was down obviously but credit was also down. Again, a number of factors, a slightly tougher comp for us, some currency headwinds and again there were some changes made, not only just in macro but also in credit in terms of repositioning. So it's a number of factors, not any one of them necessarily overwhelming. But the base level I think is best talked about on Thursday when we have given a little bit more information.

In terms of your second question, you can see that in the UK retail business, NII and revenues were actually up 7% year-on-year and you can see that underlying NII across the group was up year-on-year. When you look at the individual divisions, those that have a currency effect in them will be reflective of that. Obviously in Europe retail and Wealth there are some currency effects, but in both of those businesses we did downsize our footprint, so it's a couple of factors, the downsizing coming through as well as the currency effects. If you look at Barclaycard where income was up 3% there is a slight currency effect there. We haven't made too much of a big deal about the currency effect otherwise we would be talking about it every single quarter, but where the predominance of interest income is in the UK, you can see the growth coming through, where its outside the UK it gets muted somewhat because of the currency effect.

But generally NII on a local currency basis has trended up for us in recent times.

Andrew Coombs

Thank you.

Tushar Morzaria

Move on to the next question.

Tom Rayner, Exane BNP Paribas

Good morning, Tushar, a couple please, one back to FICC again and I suspect you might push it off to Thursday. But, I mean, over a slightly longer time horizon we've got used to Barclays being less volatile than peers in good quarters and bad quarters. The last few quarters that doesn't seem to hold any longer and certainly in Q1 it seems like in FICC you've had a more volatile experience. Can you give us any sort of colour on what that FICC number of down 41% would look like ex some of the repositioning that you've talked about? And also, I guess, and someone else has already asked, but your Chairman talked about the bonuses that were paid being paid to protect the franchise and I guess the question is, has that actually done what you hoped; has the franchise been protected or is there a broader issue? And I have a second question on stress tests, please.

Tushar Morzaria

Do you want to just ask that as well Tom and then I'll take both of them?

Tom Rayner

I guess we, sort of, know the broad methodology and the things which the PRA are going to be looking at and stressing through the second half of this year, whether that's affected the tension between your current CET1 ratio, your dividend commitment and obviously the need to try and address the low ROE in the investment bank? Has that changed your thinking at all, and again I know this is probably a topic for Thursday.

Tushar Morzaria

I think I caught three questions. There's the one on FICC volatility, one on compensation last year and how that's impacted the franchising and stress tests. I'll just take them in the order you gave them. In terms of FICC volatility, I haven't got the full history in front of me but, there's no doubt that we have traditionally been slightly more biased towards macro products. I think you've seen since the second half of last year and certainly into this quarter, macro products being a slightly more difficult asset class to be biased towards and therefore you've seen our revenues come off in the last three quarters.

In this quarter there are a number of other factors as well, as I said, I remind people of the currency effects, we found macro a more difficult class than credit, and we did do some repositioning. So it's really a multitude of factors. In terms of how we see the outlook for FICC from this point on I think that's best discussed on Thursday when we've given you a bit more information.

In terms of bonuses paid and the franchise being protected, the best way to look at this is to perhaps look at attrition levels within the Investment Bank and they don't appear materially different from where we saw them in the early part of last year. You've seen some high profile bankers leave and it's been reported in the press, but I'm not sure that's typical of everything else that's going on around the company. At this stage, we don't feel unduly concerned and again we'll talk more about the shape of the Investment Bank on Thursday.

In terms of stress tests and the impact that may have on dividends and capital levels, we obviously run our own internal stress test; we've looked at both the PRA and the EBA stress test, and nothing that we've seen there unduly concerns us at this stage. It's obviously very early and we've got to do a lot of work to actually run those stresses through our books, but nothing unduly concerns us at this stage. We are committed to paying a dividend, and of course that dividend is subject to us being above the regulatory minimum, so I just call that out as a matter of fact. But at this stage I think we're in a reasonable position.

Tom Rayner

And just maybe to come back quickly on the first point on FICC, you mentioned the mix, the bias towards macro, currency and internal repositioning. Am I right to assume that it's the mix which is very much the dominant driver of the weakness in Q1 and the other two, currency and repositioning, are relatively small compared to that mix point or should I not assume that?

Tushar Morzaria

No, Tom don't assume that; they are all relevant factors. I'm not ranking them in order of priority, they are all relevant. If 90% of the move was explained by one thing I'd certainly call it out, but it's a number of factors.

Tom Rayner

Thanks a lot.

Tushar Morzaria

Can we have the next question please?

Raul Sinha, JP Morgan

Morning, Tushar, I've got two, if I can, please. The first one is on RWAs and I appreciate you might say something about this in a couple of days' time but I just want to get some clarity on your guidance. You are currently at £429bn and that includes £56bn of legacy in the group, that probably comes down over time but you probably need a little bit for growth. When I look at the divisions which are actually growing revenues significantly, retail 7% up year-on-year but RWAs are flat; Barclaycard is up 3% year-on-year, but RWAs are flat. It doesn't seem to me you need a lot of RWAs for growth and yet you're flagging to us the £429bn probably goes up to £440bn long-term.

Is there anything regulatory that you've built in in terms of buffers, just one of the things that I wanted to clarify? And then the second one I just wanted to call out, maybe if you can give us a little bit more colour on the comments you made on PPI. You did say that you've seen a spike in March in claims although the overall claims or the complaints have been down quarter-on-quarter. Could you maybe give us a little bit more colour in terms of how you expect the provision to evolve here?

Tushar Morzaria

Just taking the RWA question first, we'll definitely talk more about RWAs on Thursday so if you'll forgive me I'll answer that question for you on Thursday when hopefully we have had a chance to meet in person.

Raul Sinha

There's nothing regulatory that you see or that has changed in the last few months, resulting in a big spike in RWA?

Tushar Morzaria

Not that we're expecting this year. No, it's not because we're expecting to be back to £440bn in a quarter by any stretch of the imagination. But we can talk more about the forward RWAs on Thursday. In terms of PPI, I guess there are a couple of things I'd point out. One is, if you look at the proactive programme that we have in place, we're more than 95% complete on that. You can see our claims levels are down 8%. You can see the flow to the Financial Ombudsman Service is also down. So by and large, that's going according to plan and we're in reasonable shape.

What we did call out for everybody though is we have seen a spike in claims coming from professional claims management companies for potential redress for PPI, going back greater than ten years, in some cases actually materially beyond that as well. We're working through that spike to really understand how many of those claims are valid and where redress is due, we will obviously make customers whole with the appropriate interest payment. But it's just too early at this stage to really see what that means for us, but I just think it's important that we've seen that spike in very, very old vintage claims come through and we should just let folks know that we've seen it and we're working through it. We obviously felt comfortable with the provision at the first quarter and we'll reassess it every quarter, as you'd expect us to do. But it's an important thing just to be mindful of what we've seen.

Raul Sinha

Okay, thanks very much.

Tushar Morzaria

Okay, thanks Raul. Could we take the next question, please?

Chris Manners, Morgan Stanley

Good morning Tushar.

Tushar Morzaria

Morning, Chris.

Chris Manners

Yes, so two questions, if I may? The first one was just for a little more colour on what's going on in UK Retail. Maybe you could help us a little bit more on asset margins, competition and potential impact of mortgage market review, the 2-3 hour interviews people are known to be having. And your expectation of whether the Bank of England may start to put into place some cooling measures for the housing market, which obviously they seem to be increasingly concerned about.

Second question was on leverage ratio; obviously good progress again in the quarter. Just, about your thinking of, where you'd like to get on that ratio. Because it strikes me that, the 3% level may get scaled up if you have to add on Pillar 2A and G-SIFI etc…you may be looking at 4% plus rather than 3.5 to 4% guidance. So maybe your thoughts on the leverage ratio and the progress you're making. Thanks.

Tushar Morzaria

Yes, thanks Chris. So the UK business and asset margins, well, let me take your question around mortgage market review. That's obviously just come in, so it's early days to see how that's going to play out. But, you know, as we get used to it, and as customers really get used to the new approval mechanics that we need to go through, I think that'll work out just okay. You're probably aware that our mortgage market share[1] reached a record. We're growing quicker than the market in, certainly mortgages, and most other retail products.

In terms of your second question about cooling effects for the Bank of England, I guess I'd draw your attention to the fact that our book tends to be very conservative. You know, our new production residential mortgages tend to be in the sort of high 60s to 70s loan to value and you can see our mortgage stock is nearer 50%, in fact. So we're in pretty good business. We tend to be underweight in buy-to-let; we tend to be underweight in 95% mortgages, so it's a pretty conservative book. Even with that, our book is growing, our market share[1] is growing and margins are actually pretty healthy and you can see ticked up a little bit in this quarter. Now, whether there are cooling measures that the Bank of England apply, it's obviously hard for me to comment on, but I think given the conservative nature of our lending book I would expect to do just fine through whatever mechanisms may come in.

In terms of your second question on leverage ratio, the 3.5 to 4% guidance, whether that's enough? We'll talk more about this on Thursday, as well. We'll guide a bit more on risk-weighted assets and we'll guide a bit more on leverage ratio, as well. I would take these as a staging post, so we're firmly committed to get to 3.5% as quickly as we can and then at 4% along with the 10.5% common equity level. But we'll talk more about that on Thursday.

Chris Manners

Perfect! Thank you.

Tushar Morzaria

Okay, thanks. Can we take the next question?

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[1] Source: Bank of England

Chira Barua, Bernstein

Good morning. Just two quick questions. The first one is on Barclaycard. Now, the franchise has obviously been very strong, but income has kind of stalled in the last three quarters. If you could just help us understand whether it's coming from the merchant business or whether ANR growth is coming down or it's a margin problem, it'll be very helpful.

And the second one is on Wealth. You mentioned that there's some restructuring going on. I see that AUM has dropped 3% sequentially, so if you could just give us more colour; is it a trend and should we expect much more? That would be great. Thank you.

Tushar Morzaria

Sure. Thanks, Chira. On Barclaycard, I mean profits are up 17% year-on-year, so I think I'd just draw your attention to that. The ROE and profit generation is very high. You've got to remember that within that balances are growing, deposits are growing in the US, and you can see our processing levels are up, I think it was 6% this quarter, so it's actually in pretty healthy business. I think what you're seeing in the top line, if that's really what you're looking at is, that it’s a currency business.

There are currency effects there; obviously cards has US Dollar and Rand revenues, and you’ve seen massive depreciation in the Rand, and Sterling has strengthened quite significantly against the US Dollar, as well. So I think you're seeing a slightly muted effect because of the currency effects.

In terms of Wealth, as you know, we've reset our footprint to simplify the business and to be much more focused in that business. So I think as a natural consequence you will see AUM reflect that and I think that's what you are seeing. I think what you'll see over time is that the improvements, or the simplification in that business should start yielding benefits on the cost line and you're beginning to see that come through this quarter. That's something you should look out for in subsequent quarters as well.

Chira Barua

Thanks.

Tushar Morzaria

Should we take the next question?

Peter Toeman, HSBC

Morning. I've just got two questions. One is the RWAs within the Investment Bank have been pretty stable despite the repositioning that has obviously damaged revenues. And I just wondered if there was an explanation or should one be concerned that you've had this repositioning but it doesn't seem to have affected the level of capital employed? And could I also ask you about the tax charge which, you know, in past quarters has reflected deferred tax asset write-offs and losses, non-recoverable losses overseas? I wondered if, on the basis that the European business might move into profitability, whether the tax charge might come down a bit closer to the sort of UK mainstream level.

Tushar Morzaria

Thanks, Peter. In terms of the RWAs and what's been going on there, there are some decent levels of reductions due to business mix changes. In terms of where we're repositioning businesses then, I'll take my favourite example of commodities because it's the only one we've talked about publically. We haven't immediately liquidated all positions so you wouldn't see that drop off instantaneously. I think you'll see that drop off over time.

There are some methodology changes that we actually put through in the first quarter which really masked, if you like, some of the reduction in RWAs that you did see from some of that repositioning. So that'll become more apparent in subsequent quarters. But, you know, these aren't substantially big numbers, so I wouldn't point it out too much given that they're just not that big numbers. But you'll see the reduction come through over time and we'll talk more about that on Thursday, as well.

In terms of your question around tax rates, do we see that converging closer to the UK tax level? Again, I guess we'll talk a little bit more about that on Thursday. But I think you should expect Barclays to remain an internationally focused bank, so to the extent we have operations in the US or anywhere outside of the UK where we have higher tax levels that will be reflected in our tax charge. You've also got to remember, which I'm sure you're aware of given that you're at HSBC, but the Bank Levy that's applied in the UK is non-deductible. So that has an effect of increasing the effective tax rate, just because it's a non-deductible charge and quite significant, so I'd always bear that in mind when you're trying to work out why we're above the 21% UK corporate tax charge. We'll always be there, simply because of the bank levy being non-deductible.

Peter Toeman

Thank you.

Tushar Morzaria

So shall we move on to the next question?

Sandy Chen, Cenkos

Morning, Tushar. Actually, could I just follow up on the RWA comment that you just made regarding methodology changes? Because looking at the CRD IV RWAs it looks like there was roughly a 3% reduction, or £11.4bn RWA reduction in the first quarter, mainly due to changes in methodology and policy. And so, given what you've just said, would that reduction have been mitigated by an upward revision in some methodologies? And, actually, could you just comment a bit more on what drove that reduction in the £11.4bn in methodology changes? Thanks.

Tushar Morzaria

Yes, sure. There are a number of things going on there. We've got some methodology changes as well as some model updates and they kind of wash themselves out. So rather than literally giving you all a line-by-line of the plusses and minuses, I would just guide you to say that, for this quarter there were a number of changes put through both as a policy matter and as a modelling matter that broadly offset. Had we not put through those changes then the business reductions that you would have seen, which weren't that significant, and again I don't want to draw too much attention to it, but it would have been clearer. To the extent that in any subsequent quarters the changes that we put through, are significant to the net impact, we'll obviously call that out. But this quarter was really a wash; a number of items have just washed against each other.

Sandy Chen

Okay, so the £11.4bn down was kind of counterbalanced by the £11.8bn increase in model updates?

Tushar Morzaria

That's correct.

Sandy Chen

So should we take the model update creep upwards sort of continuing, but the methodology reduction more on a one-off basis? Oh, I guess you'll talk more about that on Thursday.

Tushar Morzaria

To be honest, we have this EDTF table that the disclosure is really put against, so we do show model updates and methodology changes separately. But I think of them as really in the same category, so I think of them as the cumulative effect of all changes going through and they just broadly offset each other this time round. If they were significant in any direction we would have definitely called it out.

Sandy Chen

Right, okay. Thank you.

Tushar Morzaria

Okay, shall we move on to the next question?

JP Crutchley, UBS

Good morning chaps. Just two quick ones, if I may? The first one, and maybe it would be best addressed on Thursday, but it was just about the IB compensation ratio and the cost income ratio, which is obviously still moving in the wrong direction because income's falling faster than cost. But I guess the question was more about how we think about that ratio just for the Q1. And to the extent that ratio is obviously impacted by previous years' compensation coming through, how much actual flex is there in that figure? And also to a degree that we can see further restructuring announced in the Investment Bank, in the event of you letting people go or redundancy costs, etc…do we see a short-term inflation in that number which then improves at a later stage? Or are the costs, which are deferred comp costs, actually still following through in later time periods? That was just the first question.

And the second one, I just wondered if you could just help me on Africa a bit where I'm just trying to understand the bit between the pre-tax number and the attributable profit number are the very low returns being reported in terms of ROE. I suspect we're not getting the full picture there in terms of looking at it. And I just wondered if you could help out and just put some more colour around that, too, because it seems a very low attributable number versus the pre-tax and that's obviously contributing to the low returns being reported.

Tushar Morzaria

Yes, so on your first question, JP, on IB comp; obviously we will talk more about this on Thursday. But the crux of your question is probably relevant regardless, which is how much flex do we have in the IB comp level given the heavy levels of deferrals that we have in our most senior paid employees. I guess what I'd draw your attention to is, IB comp is down 20% quarter-on-quarter, even though we don't have a very material amount of variable comp in any one particular accounting period and a lot of that is prior year deferrals. So we do have the ability to bring comp down as an accounting matter, through resetting the footprint within the Investment Bank, and you're seeing a bit of that coming through in this quarter.

In terms of subsequent restructuring, were we to do that, we would typically take that as a restructuring charge upfront through our CTA line, so it would be reflected in lower comp levels from that point on. So it sort of falls away and, you know, what typically happens is a lot of the deferred awards immediately vest and gets booked as a CTA charge at the point of that action which then relieves the comp line.

I think the second question was more around the attributable profit being somewhat low relative to the pre-tax line that you're seeing?

JP Crutchley

In Africa, yes. I think was it £20m in Q1 attributable profit versus £100m in the pre-tax line, which I'm just trying to reconcile in my own mind.

Tushar Morzaria

Yes, there's a couple of things going on there, JP. There's a higher effective tax rate because the operations are local in Africa, it's about close to 35% effective tax rate there. You've also got the minority interest that you need back out as well, just the way the accounting flows, which are pre-tax. Out of that you've got to take the tax charge, and out of that you've got to take the minority interest line. And, you know, we can give you that breakdown. I can get Charlie to send that across to you.

JP Crutchley

It just still seemed low, but yes, I'll take it offline. Thank you.

Tushar Morzaria

Yes. We can get Charlie to send you the breakdown so you can project forward.

JP Crutchley

Okay, thank you.

Tushar Morzaria

Thanks, JP. Next question, please.

Chintan Joshi, Nomura

Hi. Good morning, Tushar. I have two areas of questioning, costs and leverage. On costs, can you just clarify the £17bn includes the levy and also if we should expect the CTA guidance to change? And then continuing on costs, Investment Bank comp ratio last year first quarter was 46%, you ended the year at 43%. Should we expect similar travel in 2014 as well? Shall I give you the leverage one now or later?

Tushar Morzaria

Yes, Chintan, why don't you give me that? Then I'll answer them in one shot.

Chintan Joshi

It's a few quick ones. Is the leverage reported on the January definition? How much of the reduction this quarter was driven by FX? And if you could help us with the CRD IV leverage number for the Investment Bank, please.

Tushar Morzaria

Sure. So let me take your cost questions first, so does the £17bn include the Bank Levy? Yes, just to make it clear to everybody, we're projecting somewhere around £17bn of costs for the full year. That is inclusive of the Bank Levy. I'll have to put in one of my caveats, obviously there are discussions around changing the basis in which the levy is calculated. I don't know where that's going to come out.

Chintan Joshi

So you're assuming flat or do you have some increase planned?

Tushar Morzaria

On the old basis, if you stick with last year's basis, we would be somewhere between £550 and £600m, is our expectation for this year. The new basis obviously hasn't been put in, so we just don't know what that is. So the £17bn is assuming the old basis. It's £17bn plus or minus the litigation that we need to be mindful of, as well as currency rates we need to be mindful of.

In terms of CTA guidance, we'll talk more about that on Thursday. Obviously with part of the strategic review it would be relevant for us to update people on CTA, so why don't I save that question for then as a longer-term outlook. In terms of this quarter, in broad-brush terms you should expect a roughly similar CTA charge in this quarter as we had last quarter. But we'll talk more about that on Thursday.

IB comp, 46% going down to 43%, where are we going to be for this year? Yes, I think 41% was the comparison for last year. You know, we haven't set comp for the full year, so it would be crazy for me to give you guidance this early on in the year as to how the year's going to shape up. You know, we'll pay for performance and we'll be reflective of that in our comp levels. A lot of the comp, don't forget, as an accounting matter, is coming through the deferred line, so there's a number of factors there. And it's really too early in the year to be giving full year comp guidance.

Chintan, on your question around leverage, there's not much of a FX component in there for this quarter. FX rates didn't move really that much in the quarter. I would say though I'd like to perhaps stop talking about FX when it comes to leverage now and draw people's attention to the ratio instead, because obviously FX impacts both the numerator and the denominator in the ratio and encapsulates all of that. So the 15 basis point or so improvement is probably the thing that I'd guide people towards.

In terms of the January rules, BCBS 270, we haven't given any updated guidance from full year on that, so, somewhere around 10 to 20 basis points. We guided to about 20 basis points at full year and that probably remains where it is. We're committed to the 3.5% to 4%, that will be on the prevailing rule set, and we're expecting that to be the January rules, so that's what we're committed to.

And I think finally you asked for CRD IV leverage for the IB. We don't disclose that and I won't disclose it on this call. But again, we'll talk more about the outlook for leverage on Thursday.

Chintan Joshi

Thank you.

Tushar Morzaria

I think that's it. Well, thanks everybody for joining me and look forward to hopefully seeing many of you in person on Thursday and continuing the dialogue. So thanks again.

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