Helping people achieve their ambitions – in the right way

BARCLAYS

Barclays PLC
Pillar 3 Report 2014

Forward-looking statements

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934, as amended, and Section 27A of the US Securities Act of 1933, as amended, with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition and performance. Barclays cautions readers that no forward-looking statement is a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'may', 'will', 'seek', 'continue', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'achieve' or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding the Group's future financial position, income growth, assets, impairment charges and provisions, business strategy, capital, leverage and other regulatory ratios, payment of dividends (including dividend pay-out ratios), projected levels of growth in the banking and financial markets, projected costs or savings, original and revised commitments and targets in connection with the Transform Programme and Group Strategy Update, run-down of assets and businesses within Barclays Non-Core, estimates of capital expenditures and plans and objectives for future operations, projected employee numbers and other statements that are not historical fact. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. These may be affected by changes in legislation, the development of standards and interpretations under International Financial Reporting Standards (IFRS), evolving practices with regard to the interpretation and application of accounting and regulatory standards, the outcome of current and future legal proceedings and regulatory investigations, future levels of conduct provisions, the policies and actions of governmental and regulatory authorities, geopolitical risks and the impact of competition. In addition, factors including (but not limited to) the following may have an effect: capital, leverage and other regulatory rules (including with regard to the future structure of the Group) applicable to past, current and future periods; UK, US, Africa, Eurozone and global macroeconomic and business conditions; the effects of continued volatility in credit markets; market related risks such as changes in interest rates and foreign exchange rates; effects of changes in valuation of credit market exposures; changes in valuation of issued securities; volatility in capital markets; changes in credit ratings of the Group; the potential for one or more countries exiting the Eurozone; the impact of EU and US sanctions on Russia; the implementation of the Transform Programme; and the success of future acquisitions, disposals and other strategic transactions. A number of these influences and factors are beyond the Group's control. As a result, the Group's actual future results, dividend payments, and capital and leverage ratios may differ materially from the plans, goals, and expectations set forth in the Group's forward-looking statements. Additional risks and factors are identified in our filings with the SEC including our Annual Report on Form 20-F for the fiscal year ended 31 December 2013, which are available on the SEC's website at sec.gov and in our Annual Report for the fiscal year ended 31 December 2014, which is available on the Barclays Investor Relations website at barclays.com/investorrelations.

Any forward-looking statements made herein speak only as of the date they are made and it should not be assumed that they have been revised or updated in the light of new information or future events. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange plc (the LSE) or applicable law, Barclays expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in Barclays' expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Barclays has made or may make in documents it has published or may publish via the Regulatory News Service of the LSE and/or has filed or may file with the SEC, including the 2014 20-F.

Contents

⊕ See page 179 for an index of all risk disclosures in the Pillar 3 and Annual Reports

A glossary of terms and remuneration disclosures can be found at: barclays.com/annualreport

Robert Le Blanc
Chief Risk Officer

Tushar Morzaria
Group Finance Director

'The continued strengthening of Group capital and leverage ratios reflects the strong progress accomplished this year in rebalancing the Group.'

Capital position and risk management in 2014

Our annual disclosures contain extensive information on risk as well as capital management. The Pillar 3 report provides a detailed breakdown of Barclays' regulatory capital adequacy and how this relates to Barclays' risk management:

- RWAs reduced £40.6bn to £401.9bn during the year, driven by a £35bn reduction in Barclays Non-Core (BNC)
- CRD IV fully loaded Common Equity Tier 1 (CET1) ratio increased to 10.3% (2013: 9.1%) driven by both capital accretion to £41.5bn (2013: £40.4bn) and the £35bn reduction in BNC risk weighted assets to £75bn
- The sale of the Spanish business, completed on 2 January 2015, would increase the CRD IV fully loaded CET1 ratio to 10.5%
- The BCBS 270 leverage ratio increased to 3.7% (30 September 2014: 3.5%) driven by a significant reduction in exposure to £1,233bn (30 September 2014: £1,324bn).

Barclays Non-Core was created as part of the execution of our Transform strategy:

- BNC was created to group together those assets that are not strategically attractive to Barclays either because of structural shifts in the external environment or because they remain too small with limited opportunities for growth within our Group
- BNC RWAs reduced £35bn to £75bn, reflecting the disposal of businesses, run-down and exit of securities and loans, and derivative risk reductions
- BNC is subject to the same robust risk management framework as Barclays core businesses.

We saw strong improvements in credit performance in both the core businesses and Barclays Non-Core, as well as reduced levels of market risk. Legacy conduct issues remain a key focus for the Group;

- In Barclays core businesses, credit impairment charges improved 8% to £2bn reflecting lower impairments in PCB
- In BNC, credit impairment charges improved 81% to £0.2bn, driven by the non-recurrence of impairments on single name exposures, lower charges on the wholesale portfolio, provision releases and improved underlying performance in Europe
- Market risk levels reduced following risk exposure reductions in BNC, and lower volatility in financial markets. Related RWAs reduced 28% to £52.1bn while average value at risk was 24% lower than the previous year
- Litigation and conduct issues remained a key focus, to ensure Barclays provide suitable products and services for its customers and clients. Conduct risk management is being further embedded in our strategy setting and decision making process, putting customers and market integrity at the heart of our business.

We continue to make strong progress in embedding the elements of a sound risk culture including the Enterprise Risk Management Framework (ERMF):

- As part of the implementation of the ERMF the second line of defence has been more clearly defined and strengthened, notably with regards to the oversight of Treasury as well as Operations and Technology
- We launched the Barclays Way code of conduct in 2013. The code was updated in 2014 with 98% of our colleagues attesting to the Barclays Way as at the end of 2014
- For 2015, focus will be on continuing to strengthen the management of conduct and operational risk, including the implementation of a new global system to capture risk events.

Summary of risk profile

This section presents a high-level summary of Barclays' risk profile and its interaction with the Group's risk appetite. Please see page 179 for a comprehensive index of all risk disclosures.

The Board makes use of the Risk Appetite Framework to set appetite, and continuously monitors existing and emerging risks:
The Group sets its risk appetite in terms of performance metrics as well as a set of mandate and scale limits to monitor risks. During 2014, the Group's performance was in line with Risk Appetite. The following risk metrics reflect the Group's risk profile:

Common Equity Tier 1 ratio (see page 16)

10.3% 2013: 9.1%

Common Equity Tier 1 Capital (see page 16)

£41.5bn 2013: £40.4bn

Risk weighted assets (see page 23)

£401.9bn 2013: £442bn[a]

Return on average shareholder equity
(see page 223 of the 2014 Annual Report)

5.1% 2013: 4.1%

BCBS 270 leverage ratio (see page 34)

3.7% Sept. 2014: 3.5%

Liquidity coverage ratio
(see page 194 of the 2014 Annual Report)

124% 2013: 96%

Loan loss rate (see page 113)

46bps 2013: 64bps

Management Value at Risk (see page 74)

£22m 2013: £29m

Operational risk RWAs (see page 96)

£56.7bn 2013: £54.3bn

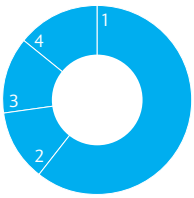
Note
a 2013 CRD IV RWAs include a £6.9bn revision following the full implementation of CRD IV reporting, as disclosed in the 30 June 2014 Result Announcements

- CRD IV fully loaded CET1 ratio increased significantly during the period to 10.3% (2013: 9.1%) reflecting an increase in CET1 capital of £1.1bn to £41.5bn and a £40.6bn decrease in RWAs to £402bn
- The decrease in RWAs was mainly driven by £35bn reductions in BNC to £75bn reflecting the disposal of businesses, run-down and exit of securities and loans, and derivatives risk reductions. The sale of the Spanish business, completed on 2 January 2015, would decrease RWAs further by £5.0bn
- The BCBS 270 leverage ratio increased to 3.7% (30 September 2014: 3.5%), reflecting a reduction in exposure of £91bn to £1,233bn, driven by a seasonal reduction in settlement balances
- Loan loss rate fell to 46bps (2013: 64bps). This reflects the improving or stable performance trends across the majority of the portfolios; it is the lowest annual rate since 1998 and significantly below the longer term average
- Average management value at risk (VaR) for the Group fell by 24% to £22m (2013: £29m), with all individual risk type components reducing year on year, particularly credit spread and basis risks
- Operational risk RWAs increased 4.3% to £56.7bn (2013: £54.3bn) driven by risk events impacting Barclays and the wider industry. These partly reflect litigation and conduct issues that remain a key focus for the Group.

Another component of the Group's risk appetite is a set of mandate and scale limits to help mitigate concentration risk, keep business activities within our mandate and allow Barclays to remain of an appropriate scale. During 2014, Barclays paid particular attention to BNC assets, mitigating the risk of large single-name losses and limiting exposure to specific sectors and geographies.

⊕ **Please see page 106 for a discussion of risk appetite, and page 115 of the 2014 Annual Report for a discussion of material and emerging risks.**

The Pillar 3 report provides detailed regulatory risk measures that reflect the Group's risk profile and strategy. 2014 measures show the progress accomplished in rebalancing the Group's risk profile as follows:

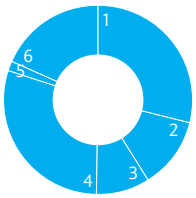


	2014	2013
1 Credit risk	**£244.0bn**	£255.4bn
2 Counterparty credit risk	**£49.1bn**	£60.1bn
3 Market risk	**£52.1bn**	£72.7bn
4 Operational risk	**£56.7bn**	£54.3bn

1. Credit risk decreased 4.5% to £244.0bn (2013: £255.4bn), primarily driven by disposal businesses within BNC, as well as changes to the treatment of high quality liquidity pool assets, partly offset by asset growth in retail businesses
2. Counterparty credit risk decreased 18% to £49.1bn (2013: £60.1bn), primarily driven by reduced exposure to derivatives within the Investment Bank and BNC
3. Market risk decreased 28% to £52.1bn (2013: £72.7bn), driven by risk reductions and reduced sovereign exposure in the trading book, particularly within the Investment Bank and BNC
4. Operational risk increased 4% to £56.7bn (2013: £54.3bn), reflecting operational risk events impacting Barclays and the wider banking industry.

⊕ **We hold RWAs for credit (discussed on page 35), market (page 71), and operational (page 95) risks. See page 23 for the main drivers of movements for each of these risk types.**

Summary of risk profile



	2014	2013
1 Personal and Corporate Banking	**£120.2bn**	£118.3bn
2 Barclaycard	**£39.9bn**	£35.7bn
3 Africa Banking	**£38.5bn**	£38.0bn
4 Investment Bank	**£122.4bn**	£124.4bn
5 Head Office and Other Operations	**£5.6bn**	£16.2bn
6 Barclays Non-Core	**£75.3bn**	£109.9bn

RWAs decreased 9.2% to £401.9bn (2013: £442.5bn).

1. PCB increased 2% to £120.2bn (2013: £118.3bn), primarily driven by growth in mortgage and corporate lending
2. Barclaycard increased 12% to £39.9bn (2013: 35.7bn), primarily driven by growth in loans and advances to customers
3. Africa Banking increased 1% to £38.5bn (2013: £38.0bn), primarily driven by growth in loans and advances to customers, partially offset by the depreciation of ZAR against GBP
4. Investment Bank decreased 2% to £122.4bn (2013: £124.4bn) primarily driven by risk reductions in the trading book, partially offset by the implementation of a revised credit risk model for assessing probability of counterparty default
5. Head Office decreased 65% to £5.6bn (2013: £16.2bn), including receipt of certain US Lehman acquisition assets and a £6.9bn revision to 2013 RWAs following full implementation of CRD IV
6. BNC RWAs decreased 31% to £75.3bn (2013: £109.9bn), reflecting the disposal of businesses, run-down and exit of securities and loans, and derivative risk reductions.

Notes on basis of preparation

Pillar 3 report regulatory framework

The Pillar 3 report is prepared in accordance with the Capital Requirements Regulation and Directive IV ('CRR' and 'CRD IV', also known as the 'CRD IV legislative package'). In particular, articles 431 to 455 of the CRR specify the Pillar 3 framework requirements. The CRD IV legislative package came into force on 1 January 2014.

⊕ See 'Application of the Basel framework' on page 7 for a more detailed description.

Changes in the 2014 Pillar 3 report

The implementation of CRD IV on 1 January 2014 introduced changes to the basis of preparation and disclosure requirements. Changes to Pillar 3 in 2014 include the disclosure of:

- Encumbered assets, as shown in Appendix B, page 169
- IRB data per country of operation is included in Appendix A, from page 166. Note that we only include countries that represent up more than 1% of the exposure total for any given asset class
- Certain remuneration disclosures are presented in Appendix C on page 170. They complement information contained in the Directors' remuneration report (DRR) of the 2014 Annual Report (from page 77)
- More detailed terms and conditions of capital resources. A worksheet is available on the Barclays Investor Relations website (barclays.com/annualreport). A summary table is presented on page 20.

⊕ See Appendix D on page 172 for a CRD IV reference.

Previous years' comparatives

The comparatives have been restated to reflect changes in the Group structure as detailed in our announcement on 10 July 2014, (barclays.com/barclays-investor-relations/results-and-reports.html). Balance sheet comparatives have also been restated to adopt the offsetting amendments to 'IAS 32, Financial Instruments: Presentation'. Finally, the basis of preparation of the leverage ratio tables has been updated to be consistent with guidance contained in the BCBS 270 'Basel III Leverage Ratio Framework and Disclosure Requirements', issued in January 2014 by the Basel Committee on Banking Supervision.

CRD IV came into force on 1 January 2014, which changed the basis of preparation for capital requirement metrics (e.g. EAD, RWAs). A separate section (see pages 15 to 34) presents capital resources and requirements at a business and asset class level showing 2013 comparatives on a CRD IV basis. Elsewhere, comparatives are shown on a CRD III basis (as indicated in table headings). Commentaries to the table indicate where year-on-year movements are driven by regulatory changes as opposed to the impacts of changing risk profiles or business drivers.

In addition, under CRD IV, a new asset class called 'equity positions' has been incorporated under the Standardised approach. It is defined in article 133 of the CRR, and includes debt instruments with economic features similar to equities.

⊕ The section 'Group capital resources, requirements and CRD IV comparatives' from page 15 for previous year comparatives prepared according to CRD IV rules.

Presentation of risk data in the Pillar 3 disclosures vs. the Annual Report

Pillar 3 discloses Barclays' assets in terms of exposures and capital requirements. For the purposes of this document:

Asset/exposure classes

Throughout this report, tables show credit exposures or capital requirements split into various exposure classes (for instance, industry or type of borrower). Some of these classes are specified in CRD IV. Where the regulations are not explicit, such as in industry and geographic analyses, Barclays shows exposure class splits at an appropriate level of granularity.

Credit losses

Where impairment or losses are disclosed within this document, Barclays has followed the IFRS definitions used in the Annual Report.

Scope of application

Where this document discloses credit exposures or capital requirements, Barclays has followed the Scope of application of its Pillar 1 capital adequacy calculations (unless noted otherwise).

Definition of credit exposures

- Credit exposure, or 'Exposure at Default' (EAD) is defined as the estimated amount at risk in the event of a default (before any recoveries) or through the decline in value of an asset. This estimate takes account of contractual commitments related to undrawn commitments
- In contrast, an asset in the Group's balance sheet is reported as a drawn balance only. This is one of the reasons why exposure values in the Pillar 3 report will differ from asset values as reported in the Annual Report.

⊕ Table 17 provides a reconciliation between IFRS and EAD for credit risk. Tables 36 to 42 provide a reconciliation between the IFRS impairment provision and the regulatory impairment allowance.

Policy, validation and sign-off

Throughout the year ended 31 December 2014, and to date, Barclays has operated a system of risk management and internal control, which provides reasonable assurance over the information disclosed in this report as well as with regards to compliance with laws and regulations.

⊕ See Appendix D for a reference to Barclays' compliance with CRD IV.

This report was validated and approved internally by Barclays in line with its Pillar 3 Policy. Businesses attest to the accuracy of their data. Consistency checks and reconciliations are performed with accounts and regulatory returns.

The Pillar 3 policy, approved by the Board, also requires that Barclays' external disclosures (which include the Pillar 3 report, interim management statements, and the Annual Report) convey its risk profile comprehensively, subject to the information being material and not proprietary nor confidential. The policy also covers frequency of disclosures.

During the publication process the report is subject to reviews by Barclays' Legal and Technical Committee. This committee is responsible for reviewing the Group's financial reports and disclosures to ensure that they are for purpose for external disclosures, and reports its conclusions to the Disclosure Committee.

The Disclosure Committee, which is chaired by the Group Finance Director, considers the content and accuracy of the disclosures, reporting its conclusions to Barclays Executive Committee and the Board Audit Committee (BAC). The BAC provides the final review and approval.

This governance process is in place to ensure both management and the Board are given sufficient opportunity to review and challenge the Group's financial statements and other significant disclosures before they are made public.

Scope and application of Basel rules

This section explains the scope of application of Basel rules in relation to capital adequacy.

- Figure 1 shows a representation of Barclays' entities within the scope of regulatory consolidation and how this differs from IFRS consolidation
- Table 1 shows how IFRS balances contribute to the regulatory scope of consolidation on a line-by-line basis
- The regulatory risk type associated with each balance sheet line is indicated in table 2
- Tables 3 and 4 show the scope of permission of calculation approaches that summarises the various approaches to calculate risk weighted assets, and Barclays' permission to use them.

Scope of application of Basel rules
Application of the Basel framework

Overview of Pillar 3

Barclays has applied the Basel framework since its implementation. The framework is made up of three pillars:

Pillar 1:
covers the calculation of risk weighted assets for credit risk, counterparty credit risk, market risk and operational risk

Pillar 2:
covers the consideration of whether additional capital is required over and above the Pillar 1 risk calculations. A firm's own internal models and assessments support this process

Pillar 3:
covers external communication of risk and capital information by banks as specified in the Basel rules to promote transparency and good risk management

Pillar 3 requires the disclosure of exposures and associated risk weighted assets for each risk type and approach to calculating capital requirements for Pillar 1.

Distinct regulatory capital approaches are followed for each of the following risk and exposure types:

- Credit risk (including certain non-traded equity exposures)
- Counterparty credit risk (CCR)
- Market risk
- Credit valuation adjustment (CVA)
- Securitisations
- Operational risk.

Approaches to calculating capital requirements under CRD IV

Calculation of capital for credit risk

The credit risk weighted assets calculation is based on an estimate of the Exposure at Default (EAD). In addition, where Barclays has the necessary regulatory waivers, it estimates Probabilities of Default (PD) and Loss Given Default (LGD) (see page 121 and the online glossary for definitions).

- Standardised approach: assesses capital requirements using standard industry-wide risk weightings based on a detailed classification of asset types
- Internal Ratings-Based approach (IRB): assesses capital requirements using the Group's specific data and internal models to calculate risk weightings. The IRB approach is further sub-divided into two applications:
  - Advanced IRB (AIRB): where internal calculations of PD, LGD and credit conversion factors are used to model risk exposures;
  - Foundation IRB (FIRB): where internal calculations of PD, but Standardised parameters for LGD and credit conversion factors are used.

⊕ See page 35 for more details on capital requirements for credit risk. Also, the Internal Ratings-Based approach to credit risk section from page 111 discusses credit risk modeling in detail.

Calculation of capital for counterparty credit risk ('CCR')

CCR differs from credit risk, above, in how the EAD is calculated and applies to traded exposures. It arises where a counterparty default may lead to losses of an uncertain nature as they are market driven. This uncertainty is factored into the valuation of the Group's credit exposure arising from such transactions. The Group uses two methods under the regulatory framework to calculate CCR exposure:

- The mark to market method (MTM, also known as current exposure method), which is the sum of the current market value of the instrument plus an add-on (dependent on Potential Future Exposure, or PFE) that accounts for the potential change in the value of the contract until a hypothetical default of the counterparty
- The internal model method ('IMM'), subject to regulatory approval, allows the use of internal models to calculate an effective expected positive exposure (EEPE), multiplied by a factor stipulated by the regulator called alpha. For Barclays this is set at 1.4.

⊕ See page 67 for more details on capital requirements for counterparty credit risk exposures.

Calculation of capital for market risk

Risk weighted assets calculations for market risk assess the losses from extreme movements in the prices of financial assets and liabilities.

- Standardised approach: a calculation is prescribed that depends on the type of contract, the net position at portfolio level, and other inputs that are relevant to the position. For instance, for equity positions a general market risk component captures changes in the market, while specific market risk is calculated based on features of the specific security (for instance, country of issuance)
- Model-based approach: with their regulator's permission, firms can use proprietary VaR models to calculate capital requirements. Under the Basel framework, stressed VaR, incremental risk charge and all-price risk models must also be used to ensure that sufficient levels of capital are maintained.

⊕ See page 71 for more details on capital requirements for market risk.

Calculation of Credit Valuation Adjustment ('CVA') capital charge

The CVA is the capital charge accounting for potential MTM losses due to the credit quality deterioration of a counterparty (that does not necessarily default). As for CCR, two approaches can be used to calculate the adjustment:

- Standardised approach: takes account of the external credit rating of each counterparty, and incorporates the effective maturity and EAD from the CCR calculation
- Advanced approach: this approach requires the calculation of the charge as a) a 10-day 99% value at risk (VaR) measure for the current one-year period and b) the same measure for a stressed period. The sum of the two VaR measures is tripled to yield the capital charge.

⊕ See page 83 for more details CVA.

Calculation of capital for securitisation exposures

A separate regulatory framework exists for the calculation of securitisations risk weighted asset exposures, the scope of which is defined by the CRDIV rules. Securitisations give rise to credit, market and other risks. Whilst CRR prescribes a standardised and advanced approach for the calculation of risk weights, Barclays has approval to use, and therefore applies the IRB approach, which includes;

- The ratings based approach, where external ratings are available
- For unrated transactions and where certain criteria is met the 'look through' approach can be used, which considers the risk of the underlying assets
- The internal assessment approach, which is also used for unrated asset backed commercial paper programmes, which applies a similar methodology to rating agency models

⊕ See page 84 for more details on capital requirements for securitisation exposures.

Calculation of capital for operational risk

Capital set aside for operational risk is deemed to cover the losses or costs resulting from human factors, inadequate or failed internal processes and systems, or external events.

To assess capital requirements for operational risk, the following methods apply:

- Standardised Approach: the capital requirement is calculated as a percentage of the income, averaged over the last three years. The Group does not use this approach.
- Basic Indicator Approach (BIA): sets the capital requirement as 15% of the net interest and non-interest income, averaged over the last three years. If the income in any year is negative or zero, that year is not considered in the average
- Advanced Management Approach (AMA): under the AMA, and subject to regulatory approval, the capital requirement is calculated using the Group's own models.

Note that only two of the above methods can be used concurrently. Barclays uses the AMA for the great majority (93.5%) of its exposures, and the BIA for the small remaining amount.

⊕ See page 95 for more details on capital requirements for operational risk.

Capital ratios

Barclays's current regulatory target is to meet a CRD IV fully loaded CET1 ratio of 9% by 2019, plus a Pillar 2A add-on. The 9% comprises the required 4.5% minimum CET1 ratio and, phased in from 2016, a Combined Buffer Requirement made up of a Capital Conservation Buffer (CCB) of 2.5% and an expected Globally Systemically Important Institution (G-SII) buffer of 2%.

Under current PRA guidance, the Pillar 2A add-on will need to be met with 56% CET1 from 2015, which would equate to approximately 1.6%[a] of RWAs. The Pillar 2A add-on would be expected to vary over time according to the PRA's individual guidance.

In addition, a Counter-Cyclical Capital Buffer (CCCB) and/or additional Sectoral Capital Requirements (SCR) may be required by the Bank of England to protect against perceived threats to financial stability. CRD IV also includes the potential for a Systemic Risk Buffer (SRB). These buffers could be applied at the Group level or at a legal entity, sub-consolidated or portfolio level. No CCCB, SCR or SRB has currently been set by the Bank of England.

Impact of selected new regulations relevant to Pillar 3

Global Systemically Important Financial Institutions

Global Systemically Important Financial Institutions ('G-SIFI'), are defined as financial institutions representing a greater risk to the global economy, due to their size. G-SIFIs are required to maintain additional capital buffers and disclose indicators that are relevant to their systemic importance.

The list of G-SIFIs is updated by the Financial Stability Board on an annual basis. Barclays was identified as a G-SIFI in November 2014, based on 31 December 2013 data that was published by Barclays on 31 July 2014 (barclays.com/barclays-investor-relations/investor-news.html). Barclays plans to publish an updated set of indicators in April 2015. The implementation of the new capital requirements for G-SIFI is applicable from 2016.

Countercyclical capital buffer

The Financial Policy Committee (FPC) has the power to set extra capital requirements to maintain financial stability, as introduced into EU law by CRD IV. At an aggregate level, it is set according to the FPC's view of whether and how much the credit to GDP ratio diverges from its long-term trend. The determination for any individual bank is partly based on the distribution of its exposures.

The Pillar 3 framework requires the disclosure of information that supports the determination of the capital buffer, including a geographical distribution of exposures, and the amount of the buffer.

At the time of publication, the countercyclical capital buffer is set as 0%. However, as an indication of the distribution of exposures, table 74 shows the banking book PD, LGD, EAD and RWAs associated with each country in which Barclays operates under the IRB approach. Table 18 shows total group exposures by geographical region. Trading book exposures would not currently be material for the buffer calculation. They will be disclosed once the calculation of the capital buffer is implemented.

⊕ Please see page 215 of the Annual Report for a more complete discussion of regulatory changes.

Note

a Based on a point in time assessment made by the PRA, at least annually. The PRA issued its requirements in May 2014. The EBA issued guidelines on the Supervisory Review and Evaluation Process (SREP) and on Pillar 2 capital which are effective from 2016, which are likely to affect how the PRA approaches Pillar 2 thereafter.

Scope of consolidation

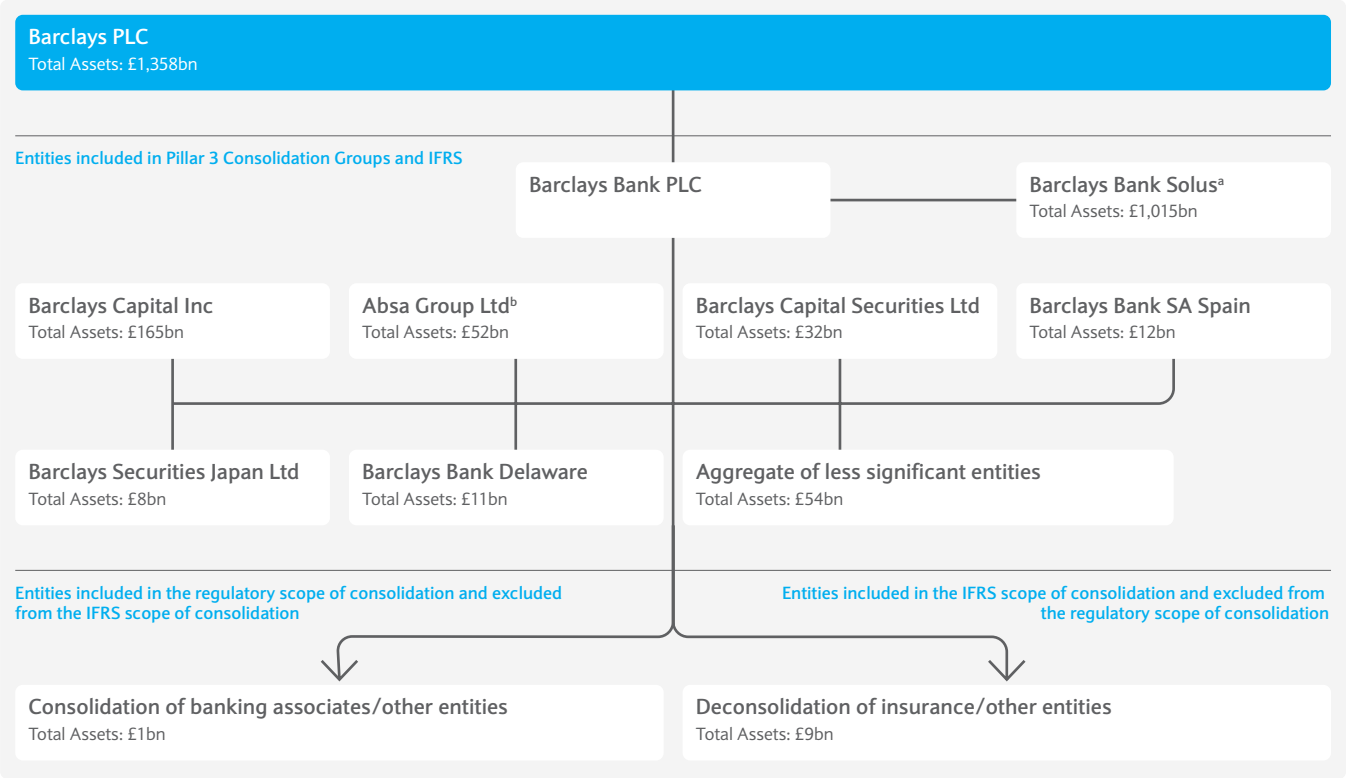
In this report, Barclays PLC is presented on a consolidated basis. All disclosures are published for Barclays PLC for the year ended 31 December 2014. The consolidation basis used is the same as that used for reporting regulatory capital adequacy to the UK Prudential Regulation Authority. This scope of consolidation is similar to that used for statutory accounting reporting for most of the Group's activities, except for:

- Subsidiaries engaged in non-financial activities such as insurance and securitisation vehicles that are fully consolidated for statutory purposes but are not consolidated for regulatory purposes (exposures to securitisation vehicles are subject to a specific capital treatment, see page 85 for further details). Entities not consolidated for regulatory purposes are adequately capitalised.
- Associates, joint ventures and participations, that are financial in nature and accounted for on an equity basis in the statutory accounts, are consolidated in proportion to the participation for regulatory calculations
- Entities that are not financial in nature, as well as private equity investments treated as associates, are accounted for on an equity basis in the statutory accounts, but are deducted from capital for regulatory calculations.

The chart below summarises Barclays' structure with an indication of the sizes of subsidiaries in terms of their respective contribution to total assets.

Barclays also reports on a solo consolidation basis in accordance with its regulatory waiver. The solo consolidation is not reported on a standalone basis in this report.

Figure 1: Summary of regulatory scope of consolidation as at 31 December 2014[a,b]



Significant subsidiaries (not wholly owned)

CRD IV regulations require Barclays to prepare its Pillar 3 disclosures at a consolidated Group level. Significant subsidiaries must also report limited Pillar 3 information on their capital resources on a standalone basis. Barclays Bank PLC is the main operating subsidiary of the Group.

Barclays also has a significant subsidiary in Barclays Africa Group Limited (BAGL). BAGL's primary regulator is the South African Reserve Bank (SARB). BAGL discloses its own separate Pillar 3 report in compliance with the SARB's regulations. These disclosures may be found in the investor relations section of BAGL's website: www.barclaysafrica.com

Please see page 159 for information on transferability of capital between parent and subsidiaries.

Notes
a Barclays Bank Solus refers to Barclays Bank PLC UK branches, excluding those of its subsidiaries.
b Barclays Bank PLC holds 100% interest in all its subsidiaries with the exception of the Barclays Africa Group Limited (BAGL), in which it holds a 62.3% interest in the Shareholders' equity and recognises the remainder as non-controlling interests. BAGL group was created following the consolidation of Absa and Barclays' African businesses (excluding Egypt and Zimbabwe operations) in 2013.

Table 1: Barclays PLC balance sheet – statutory versus regulatory view

This table shows a reconciliation between Barclays PLC balance sheet for statutory and regulatory purposes. Please note that the amount shown under the regulatory scope of consolidation is not a risk weighted asset measure; it is based on an accounting measure and cannot be directly reconciled to other tables in this report.

As at 31 December 2014	Accounting balance sheet per published financial statements £m	Deconsolidation of insurance/ other entities £m	Consolidation of banking associates/ other entities £m	Balance sheet per regulatory scope of consolidation £m
Assets				
Cash and balances at central banks	39,695	(6)	48	39,737
Items in the course of collection from other banks	1,210	–	–	1,210
Trading portfolio assets	114,717	–	1	114,718
Financial assets designated at fair value	38,300	(2,666)	87	35,721
Derivative financial instruments	439,909	(2)	–	439,907
Available for sale investments	86,066	(2,271)	42	83,837
Loans and advances to banks	42,111	(142)	84	42,053
Loans and advances to customers	427,767	(4,845)	1,150	424,072
Reverse repurchase agreements and other similar secured lending	131,753	–	–	131,753
Prepayments, accrued income and other assets	3,607	845	83	4,535
Investments in associates and joint ventures	711	(4)	(377)	330
Property, plant and equipment	3,786	(6)	24	3,804
Goodwill and intangible assets	8,180	(25)	(22)	8,133
Current tax assets	334	(1)	–	333
Deferred tax assets	4,130	(70)	8	4,068
Retirement benefit assets	56	–	–	56
Non current assets classified as held for disposal	15,574	(23)	–	15,551
Total assets	1,357,906	(9,216)	1,128	1,349,818
Liabilities				
Deposits from banks	58,390	–	930	59,320
Items in the course of collection due to other banks	1,177	–	–	1,177
Customer accounts	427,704	–	–	427,704
Repurchase agreements and other similar secured borrowing	124,479	(24)	–	124,455
Trading portfolio liabilities	45,124	–	–	45,124
Financial liabilities designated at fair value	56,972	(1,591)	–	55,381
Derivative financial instruments	439,320	–	–	439,320
Debt securities in issue	86,099	(5,531)	–	80,568
Subordinated liabilities	21,153	–	2	21,155
Accruals, deferred income and other liabilities	11,423	(2,004)	172	9,591
Provisions	4,135	(4)	10	4,141
Current tax liabilities	1,021	(15)	3	1,009
Deferred tax liabilities	262	(2)	4	264
Retirement benefit liabilities	1,574	(3)	7	1,578
Liabilities included in disposal groups classified as held for sale	13,115	–	–	13,115
Total liabilities	1,291,948	(9,174)	1,128	1,283,902
Total equity				
Called up share capital and share premium	20,809	–	–	20,809
Other equity instruments	4,322	–	–	4,322
Other reserves	2,724	(38)	–	2,686
Retained earnings	31,712	46	–	31,758
Total equity excluding non-controlling interests	59,567	8	–	59,575
Non-controlling interests	6,391	(50)	–	6,341
Total equity	65,958	(42)	–	65,916
Total liabilities and equity	1,357,906	(9,216)	1,128	1,349,818

Table 2: Regulatory calculation drivers split by IFRS account classification

	Driver for regulatory calculations		
IFRS classification	Credit risk page 35	Counterparty credit risk page 67	Market risk[a] page 71
Assets			
Cash and balances at central banks	●	○	○
Items in course of collection from other banks	●	○	○
Trading portfolio assets	○	○	●
Financial assets designated at fair value	●	●	●
Derivative financial instruments	○	●	●
Available for sale financial investments	●	○	○
Loans and advances to banks	●	○	○
Loans and advances to customers	●	○	○
Reverse repurchase agreements and other similar secured lending	○	●	○
Other assets[b]	●	○	○
Liabilities			
Deposits from banks	○	○	○
Items in course of collection due to other banks	○	○	○
Customer accounts	○	○	○
Repurchase agreements and other similar secured borrowing	○	●	○
Trading portfolio liabilities	○	○	●
Financial liabilities designated at fair value:	○	●	●
Derivative financial instruments	○	●	●
Debt securities in issue	○	○	○
Subordinated liabilities	○	○	○
Other liabilities[c]	○	○	○

Notes
a Includes Credit Valuation Adjustment.
b Other assets consists of: prepayments, accrued income and other assets, investments in associates and joint ventures, property, plant and equipment, goodwill and intangible assets, current tax assets, deferred tax assets, retirement benefit assets and non –current assets classified as held for disposal.
c Other liabilities: accruals, deferred income and other liabilities, provisions, current tax liabilities, deferred tax liabilities, retirement benefit liabilities, liabilities included in disposal groups classified as held for sale.

Scope of permission for calculation approaches

Barclays seeks permission from its regulators to use modelled approaches where possible, to enable risk differentiation.

Barclays has regulatory approval to use its internal credit models in the calculation of the majority of its credit risk and counterparty credit risk exposures. The following table summarises the principal portfolios within Barclays that use the standardised, Foundation IRB and Advanced IRB approaches as at 31 December 2014.

Table 3: The scope of the Standardised and IRB approaches for credit and counterparty credit risk

	Credit risk (see Table 11 & 12)			Counterparty credit risk (see Table 13 & 14)			Internal ratings based (IRB) approaches		
Business as at 31 December 2014	RWA £m	Average risk weight	EAD post-CRM £	RWA £m	Average risk weight	EAD post-CRM £	Advanced	Foundation	Standardised approach
Personal and Corporate Banking	102,737	33%	306,837	1,287	42%	3,066	UK managed retail and wholesale portfolios	None	Non-UK managed retail and wholesale portfolios (including legacy), UK asset and sales finance
Barclaycard	34,402	61%	56,435	–	n/a	–	UK, Germany and Spain retail credit cards	None	Global portfolios, including recent card acquisitions, joint card issuance, partner finance, secure lending and commercial payment.
Africa Banking	30,809	57%	53,642	572	37%	1,547	Retail mortgages, current accounts, personal loans and credit cards in Absa	Wholesale portfolios in Absa	Mainly retail and wholesale portfolios outside South Africa
Investment Bank	42,602	37%	116,573	25,520	36%	71,103	Most portfolios	None	Certain portfolios typically with low or no defaults, or other exposures by exception
Head Office	3,418	8%	41,920	296	72%	409	Small number of portfolios	None	Most portfolios including high quality liquidity pool assets
Barclays Non-Core	30,095	37%	81,529	21,429	45%	47,554	Certain legacy Investment Bank portfolios, Retail exposures in Spain, Portugal and Italy	None	Certain portfolios typically with low or no defaults, or insufficient historical data
Total	244,063	37%	656,936	49,104	40%	123,679			

Barclays' AIRB roll-out plans are discussed with our regulators and updated on an agreed schedule.

Barclays has permission to use the Internal Model Method (IMM) to calculate its counterparty credit risk exposures. The permission is comprehensive and applies to the majority of its trades and portfolios. Exceptions include certain contracts entered into by Barclays Capital Inc, for instance exchange traded derivatives and margin loans.

Table 4: Summary of the scope of application of regulatory methodologies for market and operational risk

As at 31 December 2014 Risk Type	Risk weighted assets	Scope
Market risk	£52.1bn	As explained on page 140 the risk of loss from changes in the prices of assets in the trading book are captured by general and specific market risk RWA calculations. The regulatory permission for Barclays to use models considers risk types and legal entities; see table 9 on page 23 for capital requirements related to each approach and risk factor. Barclays has regulatory approval for VaR modelling for general market risk, which is designed to capture the risk of loss arising from changes in market interest rates, along with the risk of losses arising from changes in foreign exchange, commodities and equity market value. The capital charge for specific market risk is designed to protect against losses from adverse movements in the price of an individual security owing to factors related to the individual issuer. Barclays has permission to model specific market risk, including credit spread, migration, and default risks, for certain legal entities and product types. Where the Group does not have permission to use a model (notably in Barclays Capital Inc), the Standardised approach is applied.
Of which: Credit value adjustment	£15.5bn	Barclays calculates Credit Valuation Adjustment (CVA) risk for all contracts in scope as defined by article 382 of the Capital Requirements Regulation. Barclays has permission to use an internal model for the specific risk of debt instruments and therefore is allowed to use the Advanced method for CVA for such instruments where applicable. The Standardised method for CVA is used otherwise.
Operational risk	£56.7bn	Barclays has regulatory approval to calculate its operational risk capital requirement using a CRD IV AMA. Recently acquired businesses are excluded from this approval. The latter account for 6.5% of operational risk RWAs as at 2014 year end. Barclays uses the BIA while it transitions these businesses to AMA.

Risk and capital position review
Contents

Group capital resources, requirements and CRD IV comparatives

This section details Barclays' capital position providing information on both capital resources and capital requirements. 2013 comparatives are presented on a CRD IV basis. It also provides detail of the BCBS 270 leverage ratio and underlying exposures.

- The Group's CRD IV fully loaded CET1 ratio increased to 10.3% reflecting an increase in CET1 capital and a reduction in RWAs
- The BCBS 270 leverage ratio increased to 3.7% from 3.5% in September 2014.

Key metrics and movements in 2014

10.3% CRD IV fully loaded CET1 ratio

- CRD IV fully loaded CET1 capital increased by £1.1bn driven by increased qualifying reserves and lower regulatory deductions
- RWAs decreased by £40.6bn driven by a reduction in Non-Core reflecting the disposal of businesses, run-down and exit of securities and loans; and derivative risk reductions

3.7% BCBS 270 leverage ratio

The BCBS 270 leverage ratio increased to 3.7% from 3.5% in September 2014 reflecting a reduction in leverage exposure to £1,233bn driven by a seasonal reduction in settlement balances in the quarter and continued reductions in BNC exposures

Group capital resources, requirements and CRD IV comparatives

Capital resources

Table 5: Capital resources

This table shows the Group's capital resources. Table 7 presents the components of regulatory capital on both a transitional and fully loaded basis as at 31 December 2014 using the format set out in Annex IV and Annex VI of the commission implementing regulation (EU).

Key capital ratios

	31 December 2014	31 December 2013 (CRD IV basis)
Fully Loaded Common Equity Tier 1	**10.3%**	9.1%
PRA Transitional Common Equity Tier 1[a, b]	**10.2%**	9.1%
PRA Transitional Tier 1[b, c]	**13.0%**	11.3%
PRA Transitional Total Capital[b, c]	**16.5%**	15.0%

Capital Resources

	31 December 2014	31 December 2013 (CRD IV basis)
Shareholders' equity (excluding non-controlling interests) per balance sheet	**59,567**	55,385
– Less: Other equity instruments (recognised as AT1 capital)	**(4,322)**	(2,063)
Adjustment to retained earnings for foreseeable dividends	**(615)**	(640)
Minority Interests (amount allowed in consolidated CET1)	**1,227**	1,238
Other regulatory adjustments and deductions		
Additional value adjustments (PVA)	**(2,199)**	(2,479)
Goodwill and intangible assets	**(8,127)**	(7,618)
Deferred tax assets that rely on future profitability excluding temporary differences	**(1,080)**	(1,045)
Fair value reserves related to gains or losses on cash flow hedges	**(1,814)**	(270)
Excess of expected losses over impairment	**(1,772)**	(2,106)
Gains or losses on liabilities at fair value resulting from own credit	**658**	600
Other regulatory adjustments	**(45)**	(119)
Direct and indirect holdings by an institution of own CET1 instruments	**(25)**	(496)
Fully Loaded Common Equity Tier 1	**41,453**	40,387
Regulatory adjustments relating to unrealised gains	**(583)**	(180)
PRA Transitional Common Equity Tier 1	**40,870**	40,207
Additional Tier 1 (AT1) capital		
Capital instruments and the related share premium accounts	**4,322**	2,063
Qualifying AT1 capital (including minority interests) issued by subsidiaries	**6,870**	9,726
Less instruments issued by subsidiaries subject to phase out	**–**	(1,849)
Transitional Additional Tier 1 capital	**11,192**	9,940
PRA Transitional Tier 1 capital	**52,062**	50,147
Tier 2 (T2) capital		
Capital instruments and the related share premium accounts	**800**	–
Qualifying T2 capital (including minority interests) issued by subsidiaries	**13,529**	16,834
Less instruments issued by subsidiaries subject to phase out	**–**	(522)
Other regulatory adjustments and deductions	**(48)**	(12)
PRA Transitional Total regulatory capital	**66,343**	66,447

Notes

a As at 31 December 2014 the CRD IV CET1 ratio (FSA October 2012 transitional statement) as applicable to Barclays' Tier 2 Contingent Capital Notes was 12.3% based on £49.6bn of transitional CRD IV CET1 capital and £402bn RWAs.

b The PRA transitional capital is based on guidance provided in policy statement PS 7/13 on strengthening capital standards published in December 2013.

c As at 31 December 2014, Barclays' fully loaded Tier 1 capital was £46,020m, and the fully loaded Tier 1 ratio was 11.5%. Fully loaded total regulatory capital was £61,763m and the fully loaded total capital ratio was 15.4%. The fully-loaded Tier 1 capital and total capital measures are calculated without applying the transitional provisions set out in CRD IV and assessing compliance of AT1 and T2 instruments against the relevant criteria in CRD IV

Group capital resources, requirements and CRD IV comparatives

Table 6: Summary of movements in capital resources

Movement in PRA transitional Total Capital	2014 £m
Opening PRA transitional Common Equity Tier 1 capital	**40,207**
Profit for the period	76
Movement in own credit	58
Movement in dividends	(1,228)
Retained regulatory capital generated from earnings	**(1,094)**
Movement in reserves – net impact of share awards	706
Movement in available for sale reserves	414
Movement in currency translation reserves	560
Movement in retirement benefits	205
Other reserves movements	(329)
Movement in other qualifying reserves	**1,556**
Movement in regulatory adjustments and deductions:	
Minority interests	(11)
Additional value adjustments (PVA)	280
Goodwill and intangible assets	(509)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(35)
Negative amounts resulting from the calculation of expected loss amounts	334
Other regulatory adjustments	74
Direct and indirect holdings by an institution of own CET1 instruments	471
Regulatory adjustments relating to unrealised gains	(403)
Closing PRA transitional Common Equity Tier 1 capital	**40,870**
Opening PRA transitional Additional Tier 1 capital as at 1 January	**9,940**
Movement in capital instruments and the related share premium accounts	2,259
Movement in qualifying AT1 capital (including minority interests) issued by subsidiaries	(2,856)
Less movement in instruments issued by subsidiaries subject to phase out	1,849
Closing PRA transitional Additional Tier 1	**11,192**
Opening PRA transitional Tier 2 capital as at 1 January	**16,300**
Movement in capital instruments and the related share premium accounts	800
Movement in qualifying T2 capital (including minority interests) issued by subsidiaries	(3,305)
Less movement in instruments issued by subsidiaries subject to phase out	522
Movement in other regulatory adjustments and deductions	(36)
Closing PRA transitional Tier 2 capital	**14,281**
Total PRA transitional regulatory capital	**66,343**

- PRA transitional CET1 capital increased by £0.7bn to £40.9bn and RWAs decreased by £40.6bn to £401.9bn resulting in an increase of the PRA transitional CET1 ratio to 10.2% (2013: 9.1%)
- Material movements in CET1 capital, after absorbing £3.3bn of adjusting items, included:
  - a £1.2bn decrease recognised for dividends paid and foreseen;
  - a £0.6bn increase due to movements in the currency translation reserve primarily driven by the strengthening of USD against GBP; and
  - a £0.6bn increase due to lower regulatory adjustments and deductions, with decreased deductions of £0.5bn for holdings of own CET 1 instruments, £0.3bn for expected loss over impairments and £0.3bn for PVA, partially offset by a £0.5bn increase in the deduction for goodwill and intangible assets.
- Transitional capital decreased by £0.1bn to £66.3bn largely due to capital redemptions in the period of €1bn non-cumulative callable preference shares and €1bn of callable fixed/floating rate subordinated notes (T2 capital). These decreases were offset by the increase in transitional CET1 capital and a T2 capital issuance of $1.25bn of fixed rate subordinated notes.

Group capital resources, requirements and CRD IV comparatives

Table 7: CRD IV regulatory capital

This table shows the components of regulatory capital presented on both a transitional and fully loaded basis as at 31 December 2014.

This disclosure has been prepared using the format set out in Annex IV and Annex VI of the final 'implementing technical standards with regard to disclosure of own funds requirements for institution' (Commission implementing regulation - EU 1423/2013)

Common Equity Tier 1 (CET1) capital: instruments and reserves	31 December 2014 Transitional position £m	Transitional impacts £m	31 December 2014 Fully loaded position £m
Capital instruments and the related share premium accounts	20,809	–	20,809
Retained earnings	31,712	–	31,712
Accumulated other comprehensive income (and other reserves)	2,724	–	2,724
Minority Interests (amount allowed in consolidated CET1)	1,227	–	1,227
Adjustment to retained earnings for foreseeable dividends	(615)	–	(615)
Common Equity Tier 1 capital before regulatory adjustments	55,857	–	55,857
Common Equity Tier 1 capital: regulatory adjustments			
Additional value adjustments (PVA)	(2,199)	–	(2,199)
Goodwill and intangible assets (net of related tax liability)	(8,127)	–	(8,127)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(1,080)	–	(1,080)
Fair value reserves related to gains or losses on cash flow hedges	(1,814)	–	(1,814)
Excess of expected losses over impairment	(1,772)	–	(1,772)
Gains or losses on liabilities at fair value resulting from changes in own credit	658	–	658
Direct and indirect holdings by an institution of own CET1 instruments	(25)	–	(25)
Regulatory adjustments relating to unrealised gains and losses	(583)	583	–
Other regulatory adjustments	(45)	–	(45)
Total regulatory adjustments to Common Equity Tier 1	(14,987)	–	(14,404)
Common Equity Tier 1 capital	40,870	583	41,453
Additional Tier 1 (AT1) capital: instruments			
Capital instruments and the related share premium accounts	4,322	–	4,322
of which: classified as equity under IFRS	4,322	–	4,322
Qualifying AT1 capital included in consolidated AT1 capital (including minority interests) issued by subsidiaries and held by third parties	6,870	(6,625)	245
Additional Tier 1 capital before regulatory adjustments	11,192	(6,625)	4,567
Tier 1 capital (T1 = CET1 + AT1)	52,062	(6,042)	46,020

Group capital resources, requirements and CRD IV comparatives

Table 7 continued

	31 December 2014 Transitional position £m	Transitional impacts £m	31 December 2014 Fully loaded position £m
Tier 2 (T2) capital: instruments and provisions			
Capital instruments and the related share premium accounts	800	–	800
Qualifying own funds instruments included in T2 capital (including minority interests) issued by subsidiaries and held by third parties	13,529	1,453	14,982
Tier 2 capital before regulatory adjustments	14,329	1,453	15,782
Tier 2 capital: regulatory adjustments			
Direct and indirect holdings of own T2 instruments and subordinated loans	(44)	9	(35)
Direct and indirect holdings by the institution of T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	(4)	–	(4)
Total regulatory adjustments to Tier 2 capital	(48)	9	(39)
Tier 2 capital	14,281	1,462	15,743
Total capital (TC = T1 + T2)	66,343	(4,580)	61,763
Total risk weighted assets	401,900	–	401,900
Capital ratios			
Common Equity Tier 1 (as a percentage of risk exposure amount)	10.2%		10.3%
Tier 1 (as a percentage of risk exposure amount)	13.0%		11.5%
Total capital (as a percentage of risk exposure amount)	16.5%		15.4%
Common Equity Tier 1 available to meet buffers	6.2%		5.8%
Amounts below the thresholds for deduction (before risk weighting)			
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	2,984	–	2,984
Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	771	–	771
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	3,434	–	3,434
Applicable caps on the inclusion of provisions in Tier 2			
Cap on inclusion of credit risk adjustments in T2 under Standardised approach	1,117		1,117
Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	1,203		1,203
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
Current cap on AT1 instruments subject to phase out arrangements	7,676		–
Current cap on T2 instruments subject to phase out arrangements	2,719		–

Group capital resources, requirements and CRD IV comparatives

Table 8: Summary of terms and conditions of capital resources

This table breaks down the Additional Tier 1 and Tier 2 capital issued by instrument and provides selected key terms and conditions. All Tier 1 capital comprises perpetual instruments with no maturity date. Regulatory capital might differ from the amounts recorded under IFRS due to PRA requirements relating to: capital eligibility criteria; amortisation of principal in the final five years to maturity; and the exclusion of the impact of fair value hedging.

Transitional provisions contained within CRR Article 486 are not applicable on an instrument-by-instrument basis and therefore instruments have been included in their transitional tiers rather than their tiers under fully loaded rules.

Further details on the terms of each instrument of subordinated liabilities can be found on pages 315 to 318 of the 2014 Annual Report and online at barclays.com/annualreport. The online disclosure has been prepared using the format set out in Annex II of the EBA Commission Implementing Regulation (EU) No 1423/2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions.

		Regulatory balance		IFRS balance	
Instrument	Initial call date	2014 £m	2013 £m	2014 £m	2013 £m
Additional Tier 1 Capital					
Additional Tier 1 Equity Instruments – Barclays PLC					
8.25% Perpetual Subordinated Contingent Convertible Securities (US$2,000m)	2018	1,229	1233	1,229	1233
7.00% Perpetual Subordinated Contingent Convertible Securities	2019	695	–	695	–
6.625% Perpetual Subordinated Contingent Convertible Securities (US$1,211m)	2019	712	–	712	–
6.5% Perpetual Subordinated Contingent Convertible Securities (€1,076m)	2019	856	–	856	–
8.0% Perpetual Subordinated Contingent Convertible Securities (€1,000m)	2020	830	830	830	830
Total Additional Tier 1 Equity Instruments		4,322	2,063	4,322	2,063
Preference Shares					
Barclays Bank PLC					
6.00% non cumulative callable preference shares		203	744	203	744
6.278% non cumulative callable preference shares		318	548	318	548
4.875% non cumulative callable preference shares		–	682	–	687
4.75% non cumulative callable preference shares		211	967	211	967
6.625% non cumulative callable preference shares		406	406	406	406
7.1% non cumulative callable preference shares		657	657	657	657
7.75% non cumulative callable preference shares		550	550	550	550
8.125% non cumulative callable preference shares		1,309	1,309	1,309	1,309
Absa Bank Limited					
Absa Preference Shares		258	268	258	268
Total Preference Shares		3,912	6,131	3,912	6,136
Tier One Notes (TONs) – Barclays Bank PLC					
6% Callable Perpetual Core Tier One Notes	2032	13	89	16	105
6.86% Callable Perpetual Core Tier One Notes (US$569m)	2032	365	411	604	613
Total Tier One Notes		378	500	620	718
Reserve Capital Instruments (RCIs) – Barclays Bank PLC					
5.926% Step-up Callable Perpetual Reserve Capital Instruments (US$159m)	2016	102	319	112	368
7.434% Step-up Callable Perpetual Reserve Capital Instruments (US$117m)	2017	75	209	85	244
6.3688% Step-up Callable Perpetual Reserve Capital Instruments	2019	33	95	39	114
14% Step-up Callable Perpetual Reserve Capital Instruments	2019	2,171	2,154	3,065	2,951
5.3304% Step-up Callable Perpetual Reserve Capital Instruments	2036	35	81	52	107
Total Reserve Capital Instruments		2,416	2,858	3,353	3,784

Group capital resources, requirements and CRD IV comparatives

Table 8 continued

Instrument	Initial call date	Regulatory balance 2014 £m	Regulatory balance 2013 £m	IFRS balance 2014 £m	IFRS balance 2013 £m
Tier 2 Capital					
Undated subordinated liabilities – Barclays Bank PLC					
6.875% Undated Subordinated Notes	2015	**135**	135	**140**	145
6.375% Undated Subordinated Notes	2017	**133**	133	**146**	146
7.7% Undated Subordinated Notes (US$99m)	2018	**63**	61	**69**	67
8.25% Undated Subordinated Notes	2018	**140**	139	**152**	151
7.125% Undated Subordinated Notes	2020	**158**	158	**202**	198
6.125% Undated Subordinated Notes	2027	**196**	196	**249**	223
Junior Undated Floating Rate Notes (US$109m)	Any interest payment date	**70**	66	**70**	66
Undated Floating Rate Primary Capital Notes Series 3	Any interest payment date	**145**	145	**145**	145
Bonds – Barclays Bank PLC					
9.25% Perpetual Subordinated Bonds (ex-Woolwich Plc)	2021	**75**	75	**94**	91
9% Permanent Interest Bearing Capital Bonds	At any time	**40**	40	**46**	42
Loans – Barclays Bank PLC					
5.03% Reverse Dual Currency Undated Subordinated Loan (Yen 8,000m)	2028	**43**	46	**39**	39
5% Reverse Dual Currency Undated Subordinated Loan (Yen 12,000m)	2028	**64**	69	**54**	58
Barclays SLCSM Funding B.V. guaranteed by the Bank					
6.140% Fixed Rate Guaranteed Perpetual Subordinated Notes	2015	**265**	259	**261**	254
Total undated subordinated liabilities		**1,527**	1,522	**1,667**	1,625

Group capital resources, requirements and CRD IV comparatives

Table 8 continued

Instrument	Initial call date	Maturity date	Regulatory balance 2014 £m	Regulatory balance 2013 £m	IFRS balance 2014 £m	IFRS balance 2013 £m
Dated subordinated liabilities						
Barclays PLC						
4.375% Fixed Rate Subordinated Notes (US$1,250m)		2024	**800**	–	**810**	–
Barclays Bank PLC						
Callable Fixed/Floating Rate Subordinated Notes (€1,000m)	2014	2019	–	833	–	866
4.38% Fixed Rate Subordinated Notes (US$75m)		2015	**5**	18	**49**	49
4.75% Fixed Rate Subordinated Notes (US$150m)		2015	**3**	36	**98**	97
5.14% Lower Tier 2 Notes (US$1,094m)	2015	2020	**701**	662	**767**	706
6.05% Fixed Rate Subordinated Notes (US$1,556m)		2017	**582**	740	**1,102**	1,073
Floating Rate Subordinated Notes (€40m)		2018	**22**	33	**31**	33
6% Fixed Rate Subordinated Notes (€1,750m)		2018	**836**	1,459	**1,462**	1,554
CMS-Linked Subordinated Notes (€100m)		2018	**48**	83	**82**	87
CMS-Linked Subordinated Notes (€135m)		2018	**68**	113	**109**	116
Fixed/Floating Rate Subordinated Callable Notes	2018	2023	**499**	500	**565**	570
7.75% Contingent Capital Notes (US$1,000m)	2018	2023	**638**	606	**640**	603
Floating Rate Subordinated Notes (€50m)		2019	**38**	42	**38**	41
6% Fixed Rate Subordinated Notes (€1,500m)		2021	**1,168**	1,251	**1,338**	1,356
9.5% Subordinated Bonds (ex-Woolwich plc)		2021	**199**	199	**306**	306
Subordinated Floating Rate Notes (€100m)		2021	**78**	80	**77**	82
10% Fixed Rate Subordinated Notes		2021	**1,954**	1,962	**2,363**	2,265
10.179% Fixed Rate Subordinated Notes (US$1,521m)		2021	**975**	921	**1,062**	991
Subordinated Floating Rate Notes (€50m)		2022	**39**	42	**39**	42
6.625% Fixed Rate Subordinated Notes (€1,000m)		2022	**775**	834	**947**	957
7.625% Contingent Capital Notes (US$3,000m)		2022	**1,913**	1,815	**1,856**	1,649
Subordinated Floating Rate Notes (€50m)		2023	**39**	41	**39**	42
5.75% Fixed Rate Subordinated Notes		2026	**604**	600	**828**	742
5.4% Reverse Dual Currency Subordinated Loan (Yen 15,000m)		2027	**81**	87	**74**	74
6.33% Subordinated Notes		2032	**50**	50	**62**	55
Subordinated Floating Rate Notes (€100m)		2040	**78**	83	**78**	83
Absa Bank Limited						
8.8% Subordinated Fixed Rate Callable Notes (ZAR 1,725m)	2014	2019	–	102	–	102
6.00% CPI-linked Subordinated Callable Notes (ZAR 3,000m)	2014	2019	–	–	–	228
8.1% Subordinated Callable Notes (ZAR 2,000m)	2015	2020	**113**	118	**114**	121
10.28% Subordinated Callable Notes (ZAR 600m)	2017	2022	–	–	**34**	35
Subordinated Callable Notes (ZAR 400m)	2017	2022	–	–	**22**	23
Subordinated Callable Notes (ZAR 1,805m)	2017	2022	**101**	105	**101**	105
Subordinated Callable Notes (ZAR 2,007m)	2018	2023	**112**	116	**112**	116
8.295% Subordinated Callable Notes (ZAR 1,188m)	2018	2023	**66**	69	**64**	69
Subordinated Callable Notes (ZAR 370m)	2019	2024	**21**	–	**21**	–
Subordinated Callable Notes (ZAR 130m)	2019	2024	**7**	–	**7**	–
5.50% CPI-linked Subordinated Callable Notes (ZAR 1,500m)	2023	2028	–	–	**109**	107
Other capital issued by Barclays Africa and Japan[a]		2014–2018	–	–	**107**	223
Total Dated subordinated liabilities			**12,613**	13,600	**15,513**	15,568
Non controlling tier 2 capital – Barclays Bank PLC						
Undated Floating Rate Primary Capital Notes Series 1			**222**	214	**222**	222
Undated Floating Rate Primary Capital Notes Series 2			**264**	264	**264**	264
Total non controlling tier 2 capital			**486**	478	**486**	486

Note
a Under CRD III Barclays Africa instruments qualified as Tier 2 capital of £26m. Under CRD IV these instruments are ineligible under transitional and fully loaded rules.

Group capital resources, requirements and CRD IV comparatives

CRD IV comparatives

Table 9: Risk weighted assets by risk type and business (CRD IV Comparative)

This table shows risk weighted assets by business and risk type.

Risk weighted assets (RWAs) by risk type and business

	Credit risk			Counterparty credit risk				Market risk			Operational risk	Total risk weighted assets
As at 31 December 2014	Std £m	F-IRB £m	A-IRB £m	Std £m	F-IRB £m	A-IRB £m	Default fund £m	CVA £m	Std £m	IMA £m	£m	£m
Personal and Corporate Banking	32,657	–	70,080	238	–	1,049	–	26	–	–	16,176	120,226
Barclaycard	15,910	–	18,492	–	–	–	–	–	–	–	5,505	39,907
Africa Banking	9,015	11,502	10,292	10	562	–	–	310	638	588	5,604	38,521
Investment Bank	5,773	–	36,829	12,490	–	11,781	1,249	6,680	16,014	11,965	19,621	122,402
Head Office	506	–	2,912	–	–	62	234	21	5	502	1,326	5,568
Total Core	63,861	11,502	138,605	12,738	562	12,892	1,483	7,037	16,657	13,055	48,232	326,624
Barclays Non-Core	10,679	–	19,416	2,654	–	18,406	369	8,470	1,575	5,279	8,428	75,276
Total risk weighted assets	74,540	11,502	158,021	15,392	562	31,298	1,852	15,507	18,232	18,334	56,660	401,900
As at 31 December 2013 (CRD IV basis)												
Personal and Corporate Banking	30,750	–	71,635	174	–	649	–	57	–	–	15,020	118,285
Barclaycard	14,357	–	15,676	–	–	–	–	–	–	–	5,627	35,660
Africa Banking	7,435	11,508	10,299	9	529	–	–	356	138	935	6,837	38,046
Investment Bank	3,681	–	33,215	9,106	–	19,511	2,094	4,257	21,605	12,815	18,096	124,380
Head Office	251	–	7,760	411	–	1,747	–	3,845	2	1,121	1,089	16,226
Total Core	56,474	11,508	138,585	9,700	529	21,907	2,094	8,515	21,745	14,871	46,669	332,597
Barclays Non-Core	19,120	–	29,677	5,152	–	20,709	–	12,443	7,362	7,769	7,642	109,874
Total risk weighted assets	75,594	11,508	168,262	14,852	529	42,616	2,094	20,958	29,107	22,640	54,311	442,471

Table 10: Movements in risk weighted assets (RWAs, CRD IV comparative)

This table shows movements in RWAs, split by risk types and macro drivers

Movement analysis of risk weighted assets

	Credit risk £bn	Counterparty credit risk £bn	Market risk[a] £bn	Operational risk £bn	Total £bn
As at 1 January 2014	255.4	60.1	72.7	54.3	442.5
Book size	14.4	(16.0)	(15.8)	–	(17.4)
Acquisitions and disposals[b]	(12.9)	(0.3)	(1.3)	–	(14.5)
Book quality	(4.4)	(2.1)	1.2	–	(5.3)
Model updates	6.0	3.5	(1.0)	3.4	11.9
Methodology and policy	(10.6)	1.3	(3.6)	–	(12.9)
Foreign exchange movement[c]	(0.5)	–	–	(1.0)	(1.5)
Other	(3.4)	2.6	(0.1)	–	(0.9)
As at 31 December 2014	244.0	49.1	52.1	56.7	401.9

Notes
a CVA is included in the market risk column.
b Total Barclays Non Core RWA Credit reductions are included in the 'acquisitions and disposals' category.
c Foreign exchange movement does not include movements for counterparty credit risk or market risk.

Total RWA movement
RWAs decreased by £40.6bn, reflecting:

- Book size decreased £17.4bn driven by trading book risk reductions within the Investment Bank and BNC, partially offset by growth in loans and advances to customers in PCB and Barclaycard
- Acquisitions and disposals decreased £14.5bn primarily driven by BNC disposals. The sale of the Spanish business, completed on 2 January 2015, would decrease RWAs further by £5.0bn
- Book quality decreased RWAs by £5.3bn due to improvements in underlying exposure risk profiles within the Investment Bank and PCB
- Model updates increased £11.9bn, primarily driven by the early implementation of a revised credit risk model for assessing the probability of counterparty default
- Methodology and policy decreased £12.9bn primarily due to changes in the treatment of high quality liquidity pool assets
- Foreign exchange movements decreased £1.5bn due to the depreciation of ZAR and EUR against GBP, partially offset by the appreciation of USD against GBP.

Credit risk
RWAs decreased by £11.4bn, reflecting:

- Acquisitions and disposals decreased £12.9bn driven by disposals in BNC exposures, including exit of specific single name exposures, and European Retail Operations (£2.0bn)
- Book quality decreased £4.4bn mainly due to improvements in underlying exposure risk profiles within the Investment Bank and PCB
- Methodology and policy decreased £10.6bn primarily driven by the change in the treatment of high quality liquidity pool assets; the application of external credit ratings within PCB; and changes in the calculation methodology for securitisations, as a result of updated regulatory guidance following the implementation of CRD IV.

Offset by:

- Book size increased £14.4bn driven by a £6.8bn increase in PCB, primarily due to growth in term lending, trade finance and UK mortgages; £3.3bn increase in Barclaycard primarily due to growth in the US (£1.3bn) & UK (£0.9bn) portfolios; and £1.5bn increase in Africa due to growth in loans and advances to customers (on a constant currency basis)
- Model updates increased £6.0bn primarily due to the application of 45% LGD floor on low default portfolios within PCB and BNC and the implementation of a revised credit risk model for assessing the probability of counterparty default.

Counterparty credit risk
RWAs decreased by £11.0bn, reflecting:

- Book size decreased £16.0bn driven by underlying trading book risk reductions within the Investment Bank and BNC
- Book quality decreased £2.1bn due to improvements in underlying exposure risk profiles within the Investment Bank and PCB

Offset by:

- Model updates increased £3.5bn primarily due to the early implementation of a revised credit risk model for assessing the probability of counterparty default

Market risk
RWAs decreased by £20.6bn, reflecting:

- Book size reductions decreased £15.8bn driven by underlying trading book risk reductions within the Investment Bank and BNC
- Acquisitions and disposals decreased £1.3bn due to the unwind of BNC positions
- Methodology and policy decreased £3.6bn primarily driven by a change of scope for portfolios subject to the modelled approach

Operational risk
RWAs increased by £2.4bn, reflecting:

- Model updates increased £3.4bn driven by a revised assessment of the risk attached to sales practices and market conduct in the Investment Bank, PCB and BNC businesses, taking into account risk events impacting Barclays and the wider banking industry

Offset by:

- Foreign exchange decreased £1.0bn due to depreciation of ZAR against GBP, reducing the Sterling value of the risks in the South African business.

Basis of preparation for movements in risk weighted assets

This analysis splits RWA movement by credit, counterparty credit, market and operational risk. Seven categories of drivers have been identified and are described below. Not all the drivers are applicable to all risk types, however all categories have been listed below for completeness purposes.

Book size

Credit risk and counterparty risk

This represents RWA movements driven by changes in the size and composition of underlying positions, measured using EAD values for existing portfolios over the period. This includes, but is not exclusive to:

- New business and maturing loans
- Changes in product mix and exposure growth for existing portfolios
- Book size reductions owing to write offs.

Market risk (inc. CVA)

This represents RWA movements owing to the changes in trading positions and volumes driven by business activity.

Book quality

Credit risk and counterparty risk

This represents RWA movements driven by changes in the underlying credit quality and recoverability of portfolios and reflected through model calibrations or realignments where applicable. This includes, but is not exclusive to:

- PD migration and LGD changes driven by economic conditions
- Ratings migration for standardised exposures
- Changing lending practices, demographics and maturity.

Market Risk (inc. CVA)

This is the movement in RWAs owing to changing risk levels in the trading book, caused by fluctuations in market conditions.

Model updates

Credit risk and counterparty risk

This is the movement in RWAs as a result of both internal and external model updates. This includes, but is not exclusive to:

- Updates to existing model inputs driven by both internal and external review
- Model enhancements to improve models performance.

Market risk (inc. CVA)

This is the movement in RWAs reflecting change in model scope, changes to market data levels, volatilities, correlations, liquidity and ratings used as input for the internal modelled RWA calculations.

Methodology and policy

Credit risk and counterparty risk

This is the movement in RWAs as a result of both internal and external methodology, policy and regulatory changes. This includes, but is not exclusive to:

- Updates to RWA calculation methodology, communicated by the regulator
- The implementation of credit risk mitigation to a wider scope of portfolios.

Market risk (inc. CVA)

This is the movement in RWAs as a result of both internal and external methodology, policy and regulatory changes for market risk and CVA.

Acquisitions and disposals

This is the movement in RWAs as a result of the disposal or acquisition of business operations impacting the size of our risk exposures. This includes credit RWA reductions relating to BNC.

Foreign exchange movements

This is the movement in RWAs as a result of changes in the exchange rate between the functional currency of the Barclays' business area or portfolio and our presentational currency for consolidated reporting. It should be noted that foreign exchange movements shown in table 10 do not include the impact of foreign exchange on counterparty credit risk IMM and market RWAs.

Other

This is the movement in RWAs driven by items that cannot be assigned to the other driver categories. In relation to market risk RWAs, this includes changes in measurement that are not driven by methodology, policy or model updates.

Credit risk exposures

The following tables analyse credit risk exposures and risk weighted assets.

Table 11: Detailed view of exposure at default, post-CRM by business (CRD IV comparative)
This table shows exposure at default post-CRM (credit risk mitigation) by business and credit exposure class for credit risk in the banking book.

EAD post-CRM credit exposure class								
As at 31 December 2014	Personal and Corporate Banking £m	Barclaycard £m	Africa Banking £m	Investment Bank £m	Head Office £m	Total Core £m	Barclays Non-Core £m	Total £m
Credit risk								
Standardised Approach								
Central governments or central banks	37,745	1,710	7,295	16,629	30,653	94,032	10,467	104,499
Regional governments or local authorities	448	2	1	124	219	794	68	862
Public sector entities	181	–	–	163	–	344	10	354
Multilateral development banks	1,203	8	31	525	1,004	2,771	314	3,085
International organisations	1,026	7	5	448	856	2,342	267	2,609
Institutions	4,901	356	548	171	108	6,084	681	6,765
Corporates	23,714	464	2,756	6,708	188	33,830	3,514	37,344
Retail	1,075	20,049	2,224	–	–	23,348	3,531	26,879
Secured by mortgages	14,175	–	153	558	–	14,886	1,062	15,948
Exposures in default	1,243	293	232	21	–	1,789	1,272	3,061
Items associated with high risk	57	–	–	165	135	357	1,195	1,552
Covered bonds	–	–	–	–	698	698	160	858
Securitisation positions	–	–	–	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–	–	–	–
Equity positions	47	–	250	133	–	430	230	660
Other items	1,575	121	468	84	15	2,263	589	2,852
Total Standardised approach credit risk exposure	87,390	23,010	13,963	25,729	33,876	183,968	23,360	207,328
Foundation IRB Approach								
Central governments or central banks	–	–	176	–	–	176	–	176
Institutions	–	–	981	–	–	981	–	981
Corporates	–	–	14,761	–	–	14,761	–	14,761
Total Foundation approach credit risk exposure	–	–	15,918	–	–	15,918	–	15,918
Advanced IRB Approach								
Central governments or central banks	1,947	8	5	1,632	1,763	5,355	1,349	6,704
Institutions	6,969	23	15	11,303	4,462	22,772	7,749	30,521
Corporates	55,611	2	6	58,908	264	114,791	14,756	129,547
Retail								
– Small and medium enterprises	7,711	–	1,124	–	–	8,835	–	8,835
– Secured by real estate collateral	130,575	–	13,896	–	–	144,471	28,029	172,500
– Qualifying revolving retail	9,643	31,605	2,705	–	–	43,953	–	43,953
– Other retail	4,844	2	4,197	–	–	9,043	10	9,053
Equity	–	–	–	–	–	–	–	–
Securitisation positions	93	–	270	14,978	628	15,969	4,879	20,848
Non-credit obligation assets	2,054	1,785	1,543	4,023	927	10,332	1,397	11,729
Total Advanced IRB credit risk exposure	219,447	33,425	23,761	90,844	8,044	375,521	58,169	433,690
Total credit risk exposure	306,837	56,435	53,642	116,573	41,920	575,407	81,529	656,936

Group capital resources, requirements and CRD IV comparatives

Table 11 continued

EAD post-CRM credit exposure class

As at 31 December 2013 (CRD IV basis)	Personal and Corporate Banking £m	Barclaycard £m	Africa Banking £m	Investment Bank £m	Head Office £m	Total Core £m	Barclays Non-Core £m	Total £m
Credit risk								
Standardised approach								
Central governments or central banks	545	827	6,843	13	123	8,351	488	8,839
Regional governments or local authorities	99	–	–	15	–	114	83	197
Public sector entities	80	–	–	–	–	80	67	147
Multilateral development banks	–	–	–	–	–	–	–	–
International organisations	–	–	–	–	–	–	–	–
Institutions	4,002	255	505	375	60	5,197	641	5,838
Corporates	19,602	538	2,729	3,401	58	26,328	4,538	30,866
Retail	781	17,780	2,130	–	–	20,691	5,000	25,691
Secured by mortgages	16,326	–	276	–	–	16,602	2,246	18,848
Exposures in default	1,346	415	63	8	–	1,832	1,000	2,832
Items associated with high risk	–	–	–	8	41	49	2,015	2,064
Covered bonds	–	–	–	132	13	145	322	467
Securitisation positions	–	–	–	–	–	–	277	277
Collective investment undertakings	–	–	2	–	–	2	327	329
Equity positions	161	–	93	425	15	694	551	1,245
Other items	1,591	155	496	294	52	2,588	802	3,390
Total Standardised approach credit risk exposure	44,533	19,970	13,137	4,671	362	82,673	18,357	101,030
Foundation IRB Approach								
Central governments or central banks	–	–	246	–	–	246	–	246
Institutions	–	–	1,291	–	–	1,291	–	1,291
Corporates	–	–	14,218	–	–	14,218	–	14,218
Total Foundation approach credit risk exposure	–	–	15,755	–	–	15,755	–	15,755
Advanced IRB Approach								
Central governments or central banks	42,322	196	176	25,048	13,675	81,417	20,238	101,655
Institutions	8,378	32	28	12,087	2,466	22,991	10,375	33,366
Corporates	55,500	11	13	58,126	1,070	114,720	16,834	131,554
Retail								
– Small and medium enterprises	7,982	–	1,252	–	–	9,234	–	9,234
– Secured by real estate collateral	125,559	–	14,558	–	–	140,117	32,241	172,358
– Qualifying revolving retail	8,959	25,148	2,582	–	–	36,689	–	36,689
– Other retail	4,827	3	4,193	–	–	9,023	15	9,038
Equity	–	–	–	–	83	83	–	83
Securitisation positions	99	–	344	14,635	1,137	16,215	5,738	21,953
Non-credit obligation assets	2,226	1,307	1,533	3,566	2,097	10,729	2,152	12,881
Total Advanced IRB credit risk exposure	255,852	26,697	24,679	113,462	20,528	441,218	87,593	528,811
Total credit risk exposure	300,385	46,667	53,571	118,133	20,890	539,646	105,950	645,596

A change to the treatment of high quality liquidity pool assets impacts all clusters. This represents a £95.6bn EAD movement from the AIRB to the Standardised approach, within 'Central governments or central banks', 'Multilateral development banks' and 'International organisations'.

In addition to this material movement, other movements are due to:

Exposure at default post-CRM increased by £11.3bn to £656.9bn. The key movements by business were as follows:

- **PCB** increased by £6.5bn to £306.8bn, driven by growth in mortgage and corporate lending
- **Barclaycard** increased by £9.8bn to £56.4bn, driven by balance sheet growth across portfolios and application of new methodology in the exposure model in order to meet changes in regulatory guidance
- **Africa Banking** increased by £0.1bn to £53.6bn, driven by growth in loans and advances to customers, partially offset by the appreciation of GBP against ZAR
- **Investment Bank** decreased by £1.6bn to £116.6bn, driven by the reallocation of liquidity pool assets to the business offset by an increase in net lending
- **Head Office** increased by £21.0bn to £41.9bn driven by an increase in the Group liquidity pool assets
- **BNC** decreased by £24.4bn to £81.5bn driven by disposals and loan repayments.

Group capital resources, requirements and CRD IV comparatives

Table 12: Detailed view of credit risk RWAs by business (CRD IV comparative)

This table shows RWAs for credit risk by business, broken down by credit exposure class for credit risk in the banking book.

Risk weighted assets credit exposure class								
As at 31 December 2014	Personal and Corporate Banking £m	Barclaycard £m	Africa Banking £m	Investment Bank £m	Head Office £m	Total Core £m	Barclays Non-Core £m	Total £m
Credit risk								
Standardised approach								
Central governments or central banks	3	–	2,518	–	51	2,572	256	2,828
Regional governments or local authorities	27	–	–	10	–	37	–	37
Public sector entities	45	–	–	135	–	180	10	190
Multilateral development banks	–	–	26	–	–	26	–	26
International organisations	–	–	–	–	–	–	–	–
Institutions	1,695	72	272	419	26	2,484	360	2,844
Corporates	22,537	479	2,755	4,337	85	30,193	2,605	32,798
Retail	817	15,038	2,091	–	–	17,946	2,560	20,506
Secured by mortgages	5,632	–	115	217	–	5,964	460	6,424
Exposures in default	1,561	296	316	32	–	2,205	1,680	3,885
Items associated with high risk	85	–	–	248	202	535	2,148	2,683
Covered bonds	–	–	–	–	140	140	32	172
Securitisation positions	–	–	–	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–	–	–	–
Equity positions	116	–	538	342	–	996	528	1,524
Other items	139	25	384	33	2	583	40	623
Total Standardised approach credit risk exposure	32,657	15,910	9,015	5,773	506	63,861	10,679	74,540
Foundation IRB approach								
Central governments or central banks	–	–	95	–	–	95	–	95
Institutions	–	–	472	–	–	472	–	472
Corporates	–	–	10,935	–	–	10,935	–	10,935
Total Foundation approach credit risk exposure	–	–	11,502	–	–	11,502	–	11,502
Advanced IRB approach								
Central governments or central banks	219	1	1	250	151	622	122	744
Institutions	2,134	5	4	1,370	1,352	4,865	2,243	7,108
Corporates	34,905	–	5	25,205	121	60,236	4,751	64,987
Retail								
– Small and medium enterprises	3,530	–	673	–	–	4,203	–	4,203
– Secured by real estate collateral	19,747	–	3,622	–	–	23,369	7,526	30,895
– Qualifying revolving retail	1,423	16,539	1,714	–	–	19,676	–	19,676
– Other retail	5,626	2	2,983	–	–	8,611	3	8,614
Equity	–	–	–	–	–	–	–	–
Securitisation positions	28	–	51	2,187	57	2,323	2,992	5,315
Non-credit obligation assets	2,468	1,945	1,239	7,817	1,231	14,700	1,779	16,479
Total Advanced IRB credit risk exposure	70,080	18,492	10,292	36,829	2,912	138,605	19,416	158,021
Total credit risk weighted assets	102,737	34,402	30,809	42,602	3,418	213,968	30,095	244,063

Group capital resources, requirements and CRD IV comparatives

Table 12 continued

Risk weighted assets credit exposure class

As at 31 December 2013 (CRD IV basis)	Personal and Corporate Banking £m	Barclaycard £m	Africa Banking £m	Investment Bank £m	Head Office £m	Total Core £m	Barclays Non-Core £m	Total £m
Credit risk								
Standardised approach								
Central governments or central banks	4	–	2,078	–	20	2,102	272	2,374
Regional governments or local authorities	20	–	–	15	–	35	51	86
Public sector entities	43	–	–	–	–	43	67	110
Multilateral development banks	–	–	–	–	–	–	–	–
International organisations	–	–	–	–	–	–	–	–
Institutions	1,775	20	231	127	21	2,174	346	2,520
Corporates	19,021	551	2,731	2,557	58	24,918	4,685	29,603
Retail	553	13,343	1,617	–	–	15,513	3,674	19,187
Secured by mortgages	6,773	–	189	–	–	6,962	1,125	8,087
Exposures in default	1,973	415	78	12	–	2,478	1,415	3,893
Items associated with high risk	–	–	–	12	61	73	2,728	2,801
Covered bonds	–	–	–	52	3	55	90	145
Securitisation positions	–	–	–	–	–	–	3,468	3,468
Collective investment undertakings	–	–	2	–	–	2	101	103
Equity positions	377	–	139	638	36	1,190	1,012	2,202
Other items	211	28	370	268	52	929	86	1,015
Total Standardised approach credit risk exposure	30,750	14,357	7,435	3,681	251	56,474	19,120	75,594
Foundation IRB approach								
Central governments or central banks	–	–	101	–	–	101	–	101
Institutions	–	–	397	–	–	397	–	397
Corporates	–	–	11,010	–	–	11,010	–	11,010
Total Foundation approach credit risk exposure	–	–	11,508	–	–	11,508	–	11,508
Advanced IRB approach								
Central governments or central banks	3,378	16	14	2,098	2,061	7,567	1,843	9,410
Institutions	1,408	5	4	1,499	1,301	4,217	1,140	5,357
Corporates	33,316	2	5	20,680	1,635	55,638	6,911	62,549
Retail								
– Small and medium enterprises	4,575	–	716	–	–	5,291	–	5,291
– Secured by real estate collateral	19,335	–	3,580	–	–	22,915	8,639	31,554
– Qualifying revolving retail	1,559	14,192	1,697	–	–	17,448	–	17,448
– Other retail	5,200	2	2,976	–	–	8,178	10	8,188
Equity	–	–	–	–	307	307	–	307
Securitisation positions	29	–	45	2,208	109	2,391	7,830	10,221
Non-credit obligation assets	2,835	1,459	1,262	6,730	2,347	14,633	3,304	17,937
Total Advanced IRB credit risk exposure	71,635	15,676	10,299	33,215	7,760	138,585	29,677	168,262
Total credit risk weighted assets	102,385	30,033	29,242	36,896	8,011	206,567	48,797	255,364

A change to the treatment of high quality liquidity pool assets impacts all clusters. This represents a £8.9bn decrease in RWA due to the transfer from the AIRB to the Standardised approach, within 'Central governments or central banks', 'Multilateral development banks' and 'International organisations'.

In addition to this material movement, other movements are due to:

RWAs decreased by £2.3bn to £244.0bn. The key movements by business were as follows:

- **PCB** increased by £4.5bn to £102.7bn, driven by growth in corporate lending, partially offset by improvement in credit quality
- **Barclaycard** increased by £4.3bn to £34.4bn, driven by asset growth. The RWA impact on the changes in exposure model mentioned in Table 11 commentary was taken in 2013
- **Africa Banking** increased by £1.6bn to £30.8bn, primarily driven by an growth in loans and advances to customers, partially offset by appreciation of GBP against ZAR
- **Investment Bank** increased by £8.3bn to £42.6bn, primarily driven by an increase in net lending
- **Head Office** decreased by £4.6bn to £3.4bn, including receipt of certain US Lehman acquisition assets and a £2.3bn revision to 2013 RWAs following full implementation of CRD IV
- **Barclays Non-Core** decreased by £16.7bn to £30.1bn, driven by disposals and loan repayments.

Counterparty risk exposures

The following tables analyse counterparty credit risk exposures and risk weighted assets.

Table 13: Exposure at default associated with counterparty credit risk by business (CRD IV comparative)
This table summarises EAD post-credit risk mitigation by business and exposure class for counterparty credit risk.

Post-CRM EAD							
As at 31 December 2014	Personal and Corporate Banking £m	Africa Banking £m	Investment Bank £m	Head Office £m	Total Core £m	Barclays Non-Core £m	Total £m
Counterparty credit risk exposure class							
Standardised approach							
Central governments or central banks	–	–	4	–	4	8	12
Regional governments or local authorities	–	–	22	–	22	4	26
Public sector entities	–	–	53	–	53	670	723
Multilateral development banks	–	–	–	–	–	–	–
International organisations	–	–	72	–	72	27	99
Institutions	–	5	14,347	7	14,359	2,639	16,998
Corporates	284	7	7,026	15	7,332	1,584	8,916
Retail	–	–	–	–	–	–	–
Secured by mortgages	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	–
Items associated with high risk[a]	–	–	3,318	11	3,329	595	3,924
Covered bonds	–	–	–	–	–	–	–
Securitisation positions	–	–	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–	–	–
Equity positions	–	–	–	–	–	–	–
Other items	–	–	–	–	–	–	–
Total Standardised approach credit risk exposure	284	12	24,842	33	25,171	5,527	30,698
Foundation IRB approach							
Central governments or central banks	–	2	–	–	2	–	2
Institutions	–	1,096	–	–	1,096	–	1,096
Corporates	–	437	–	–	437	–	437
Total Foundation approach credit risk exposure	–	1,535	–	–	1,535	–	1,535
Advanced IRB approach							
Central governments or central banks	–	–	5,351	34	5,385	8,917	14,302
Institutions	–	–	10,929	143	11,072	8,242	19,314
Corporates	2,782	–	29,156	49	31,987	23,599	55,586
Securitisation positions	–	–	24	–	24	1,033	1,057
Total Advanced IRB credit risk exposure	2,782	–	45,460	226	48,468	41,791	90,259
Default fund contributions	–	–	801	150	951	236	1,187
Total counterparty credit risk	3,066	1,547	71,103	409	76,125	47,554	123,679

Note
a Items associated with high risk have increased due to a change in treatment from AIRB to standardised approach due to highly leveraged counterparties.

Group capital resources, requirements and CRD IV comparatives

Table 13 continued

Post-CRM EAD

As at 31 December 2013 (CRD IV basis)	Personal and Corporate Banking £m	Africa Banking £m	Investment Bank £m	Head Office £m	Total Core £m	Barclays Non-Core £m	Total £m
Counterparty credit risk exposure class							
Standardised approach							
Central governments or central banks	–	–	26	–	26	75	101
Regional governments or local authorities	–	–	6	–	6	53	59
Public sector entities	–	–	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–	–
International organisations	–	–	–	–	–	–	–
Institutions	–	3	26,695	176	26,874	3,439	30,313
Corporates	–	6	13,741	193	13,940	10,496	24,436
Retail	377	–	–	–	377	83	460
Secured by mortgages	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	–
Items associated with high risk[a]	–	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–	–
Securitisation positions	–	–	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–	–	–
Equity positions	–	–	–	–	–	–	–
Other items	–	–	–	–	–	–	–
Total Standardised approach credit risk exposure	377	9	40,468	369	41,223	14,146	55,369
Foundation IRB approach							
Central governments or central banks	–	2	–	–	2	–	2
Institutions	–	155	–	–	155	–	155
Corporates	–	1,171	–	–	1,171	–	1,171
Total Foundation approach credit risk exposure	–	1,328	–	–	1,328	–	1,328
Advanced IRB approach							
Central governments or central banks	–	–	4,151	212	4,363	10,750	15,113
Institutions	–	–	10,963	67	11,030	9,223	20,253
Corporates	1,034	–	27,388	1,350	29,772	25,183	54,955
Securitisation positions	–	1	5	–	6	1,223	1,229
Total Advanced IRB credit risk exposure	1,034	1	42,507	1,629	45,171	46,379	91,550
Default fund contributions	–	–	717	–	717	–	717
Total counterparty credit risk	1,411	1,338	83,692	1,998	88,439	60,525	148,964

Counterparty credit risk exposure Post-CRM decreased by £25.3bn to £123.7bn, primarily due to exposures in the Investment Bank and BNC:

- Investment Bank decreased by £12.6bn to £71.1bn primarily driven by a reduction in CCP derivative exposure
- BNC decreased by £13.0bn primarily driven by a reduction in SFT exposure and run down of legacy derivative portfolios.

Note

a Items associated with high risk have increased due to a change in treatment from AIRB to standardised approach due to highly leveraged counterparties.

Group capital resources, requirements and CRD IV comparatives

Table 14: Risk weighted assets of counterparty credit risk exposures by business units (CRD IV comparative)
This table summarises risk weighted assets by business and exposure class for counterparty credit risk.

Risk weighted assets							
As at 31 December 2014	Personal and Corporate Banking £m	Africa Banking £m	Investment Bank £m	Head Office £m	Total Core £m	Barclays Non-Core £m	Total £m
Counterparty credit risk exposure class							
Standardised approach							
Central governments or central banks	–	–	17	–	17	14	31
Regional governments or local authorities	–	–	7	–	7	4	11
Public sector entities	–	–	25	–	25	136	161
Multilateral development banks	–	–	–	–	–	–	–
International organisations	–	–	–	–	–	–	–
Institutions	–	3	533	–	536	14	550
Corporates	238	7	6,908	–	7,153	1,594	8,747
Retail	–	–	–	–	–	–	–
Secured by mortgages	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	–
Items associated with high risk	–	–	5,000	–	5,000	892	5,892
Covered bonds	–	–	–	–	–	–	–
Securitisation positions	–	–	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–	–	–
Equity positions	–	–	–	–	–	–	–
Other items	–	–	–	–	–	–	–
Total Standardised approach credit risk exposure	238	10	12,490	–	12,738	2,654	15,392
Foundation IRB approach							
Central governments or central banks	–	1	–	–	1	–	1
Institutions	–	326	–	–	326	–	326
Corporates	–	235	–	–	235	–	235
Total Foundation approach credit risk exposure	–	562	–	–	562	–	562
Advanced IRB approach							
Central governments or central banks	–	–	336	18	354	2,529	2,883
Institutions	–	–	3,434	6	3,440	4,087	7,527
Corporates	1,049	–	7,881	38	8,968	11,179	20,147
Securitisation positions	–	–	130	–	130	611	741
Total Advanced IRB credit risk exposure	1,049	–	11,781	62	12,892	18,406	31,298
Default fund contributions	–	–	1,249	234	1,483	369	1,852
Total counterparty credit risk	1,287	572	25,520	296	27,675	21,429	49,104

Group capital resources, requirements and CRD IV comparatives

Table 14 continued

Risk weighted assets

As at 31 December 2013 (CRD IV basis)	Personal and Corporate Banking £m	Africa Banking £m	Investment Bank £m	Head Office £m	Total Core £m	Barclays Non-Core £m	Total £m
Counterparty credit risk exposure class							
Standardised approach							
Central governments or central banks	–	–	51	2	53	45	98
Regional governments or local authorities	–	–	7	2	9	56	65
Public sector entities	–	–	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–	–
International organisations	–	–	–	–	–	–	–
Institutions	–	3	961	25	989	296	1,285
Corporates	–	6	8,087	382	8,475	4,687	13,162
Retail	174	–	–	–	174	54	228
Secured by mortgages	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	–
Items associated with high risk	–	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–	–
Securitisation positions	–	–	–	–	–	14	14
Collective investment undertakings	–	–	–	–	–	–	–
Equity positions	–	–	–	–	–	–	–
Other items	–	–	–	–	–	–	–
Total Standardised approach credit risk exposure	174	9	9,106	411	9,700	5,152	14,852
Foundation IRB approach							
Central governments or central banks	–	1	–	–	1	–	1
Institutions	–	58	–	–	58	–	58
Corporates	–	470	–	–	470	–	470
Total Foundation approach credit risk exposure	–	529	–	–	529	–	529
Advanced IRB approach							
Central governments or central banks	–	–	361	154	515	1,962	2,477
Institutions	–	–	3,051	245	3,296	3,327	6,623
Corporates	649	–	16,037	1,348	18,034	13,864	31,898
Securitisation positions	–	–	62	–	62	1,556	1,618
Total Advanced IRB credit risk exposure	649	–	19,511	1,747	21,907	20,709	42,616
Default fund contributions	–	–	2,094	–	2,094	–	2,094
Total counterparty credit risk	823	538	30,711	2,158	34,230	25,861	60,091

Counterparty credit risk weighted assets decreased by £11.0bn to £49.1bn, primarily due to:

- Investment Bank decreased by £5.2bn to £25.5bn primarily driven by reduced derivative/SFT trade volumes and a change in treatment from advanced to standardised approach for highly leveraged counterparties
- BNC decreased by £4.4bn to £21.4bn primarily driven by a reduction in SFT exposure and run down of legacy derivative portfolios

Leverage ratio requirements

The leverage exposure below has been prepared in line with the PRA's revised Supervisory Statement SS3/13, which requires the exposure measure to be calculated on a BCBS 270 basis and Barclays to meet a 3% end point Tier 1 leverage ratio.

In January 2014, the Basel Committee finalised its revised standards (BCBS 270) for calculating the Basel 3 leverage ratio. The European Commission is implementing the amendments into the CRR via a delegated act which came into force from January 2015. Barclays does not believe that there is a material difference between the BCBS 270 leverage ratio and a leverage ratio calculated in accordance with the delegated act.

At 31 December 2014 Barclays BCBS 270 leverage ratio was 3.7%, which is in line with the expected minimum end state requirement outlined by the Financial Policy Committee (FPC).

Leverage ratio calculation

Table 15: Leverage ratio

BCBS 270 Leverage ratio

Leverage exposure	As at 31 December 2014 £bn	As at 30 September 2014 £bn	As at 30 June 2014 £bn
Accounting assets			
Derivative financial instruments	**440**	383	333
Cash collateral	**73**	60	60
Reverse repurchase agreements	**132**	158	172
Loans and advances and other assets	**713**	765	750
Total IFRS assets	**1,358**	1,366	1,315
Regulatory consolidation adjustments	**(8)**	(8)	(8)
Derivatives adjustments			
Derivatives netting	**(395)**	(345)	(298)
Adjustments to cash collateral	**(53)**	(42)	(31)
Net written credit protection	**27**	28	29
Potential Future Exposure on derivatives	**179**	195	195
Total derivatives adjustments	**(242)**	(164)	(105)
Securities financing transaction adjustments	**25**	34	56
Regulatory deductions and other adjustments	**(15)**	(14)	(10)
Weighted off balance sheet commitments	**115**	110	105
Total fully loaded leverage exposure	**1,233**	1,324	1,353
Fully loaded CET 1 capital	**41.5**	42.0	40.8
Fully loaded AT 1 capital	**4.6**	4.6	4.6
Fully loaded Tier 1 capital	**46.0**	46.6	45.4
Fully loaded leverage ratio	**3.7%**	3.5%	3.4%

Leverage exposures during Q414 decreased by £91bn to £1,233bn:

- Loans and advances and other assets decreased by £52bn to £713bn primarily due to a seasonal reduction in settlement balances of £28bn and a £13bn reduction in cash balances
- SFTs decreased £35bn to £157bn driven by a £26bn reduction in IFRS reverse repurchase agreements and £9bn in SFT adjustments reflecting deleveraging in BNC and a seasonal reduction in trading volumes
- Total derivative exposures[a] decreased £8bn due to a £16bn reduction in the potential future exposure (PFE), partially offset by an increase in IFRS derivatives and cash collateral
  - PFE on derivatives decreased £16bn to £179bn mainly due to reductions in business activity and optimisations, including trade compressions and tear ups. This was partially offset by an increase relating to sold options driven by a change to the basis of calculation
  - Other derivatives exposures increased £8bn to £92bn driven by an increase in IFRS derivatives of £57bn to £440bn and cash collateral £13bn to £73bn. This was broadly offset by increases in allowable derivatives netting.

Note
a Total derivative exposures include IFRS derivative financial instruments, cash collateral and total derivatives adjustments.

Analysis of credit risk

This section details Barclays' credit risk profile, focusing on regulatory measures such as exposure at default and risk weighted assets. The risk profile is analysed by business segment, country and industry concentrations, residual maturities, probabilities of default and actual losses.

- RWAs decreased by £11.4bn to £244.0bn, primarily driven by disposals in BNC and regulatory changes to the treatment of high quality liquid assets, partially offset by growth in loans and advances in PCB and Barclaycard, and the implementation of a revised PD model.

Risk weighted assets for credit risk reduced in the year

-£11.4bn total RWA

Driven by:

-£11.1bn

Disposals in BNC

-£8.9bn

Regulatory changes to the treatment of high quality liquid assets

-£4.4bn

Owing to improvements in book quality, offset by:

+£6.0bn

Implementation of a revised PD model

+£11.5bn

Growth in loans and advances to customers in PCB and Barclaycard

Analysis of capital requirements for credit risk and exposures

Table 16: Minimum capital requirements and exposure for credit risk – Note on pre- and post-credit risk mitigation (CRM) EAD
This table summarises credit risk information presented in the rest of this report and shows exposure at default pre- and post-CRM, and the associated capital requirements. In accordance with regulatory requirements, credit mitigation is either reflected in regulatory measures for exposure at default (EAD), or in the risk inputs: probability of default (PD) and loss given default (LGD). For the majority of Barclays' exposures, in particular mortgages and those under the AIRB treatment, the impact of CRM is reflected in the PD or LGD rather than EAD measures.

RWAs and post-CRM exposures are analysed by business on pages 26 to 29. Pre-CRM exposures are further analysed by geography on page 39, industry on page 41 and residual maturity on page 43. Information on the impact of CRM on EAD is set out on page 133.

Credit exposure class	EAD pre-CRM[a]		EAD post-CRM[a]		Capital requirements		
As at 31 December 2014	Year-end £m	Average £m	Year-end £m	Average £m	RWA £m	Average RWA £m	Capital reqs £m
Standardised approach							
Central governments or central banks	104,499	103,061	104,499	103,046	2,828	2,480	226
Regional governments or local authorities	863	1,512	862	1,512	37	66	3
Public sector entities	365	267	354	263	190	120	15
Multilateral development banks	3,085	3,848	3,085	3,848	26	7	2
International organisations	2,609	1,623	2,609	1,623	–	–	–
Institutions	6,952	6,887	6,765	6,714	2,844	2,466	197
Corporates	49,953	48,808	37,344	35,617	32,798	33,091	2,611
Retail	27,711	26,688	26,879	25,788	20,506	19,572	1,640
Secured by mortgages	15,948	16,112	15,948	16,114	6,424	6,244	514
Exposures in default	3,086	2,862	3,061	2,827	3,885	3,504	311
Items associated with high risk	1,552	1,816	1,552	1,816	2,683	3,183	215
Covered bonds	858	837	858	837	172	187	14
Securitisation positions	–	–	–	–	–	–	–
Collective investment undertakings	–	132	–	126	–	38	–
Equity positions	660	890	660	890	1,524	1,791	110
Other items	2,852	2,975	2,852	2,975	623	659	50
Total Standardised approach credit risk exposure	220,993	218,318	207,328	203,996	74,540	73,408	5,908
Foundation IRB approach							
Central governments or central banks	176	212	176	212	95	102	8
Institutions	981	970	981	970	472	433	38
Corporates	14,761	14,458	14,761	14,458	10,935	10,766	875
Total Foundation approach credit risk exposure	15,918	15,640	15,918	15,640	11,502	11,301	921
Advanced IRB approach							
Central governments or central banks	6,704	8,662	6,704	8,662	744	1,039	57
Institutions	30,521	31,558	30,521	31,558	7,108	7,368	604
Corporates	129,547	126,049	129,547	126,049	64,987	63,506	5,191
Retail							
– Small and medium enterprises (SME)	8,835	9,014	8,835	9,014	4,203	4,970	336
– Secured by real estate collateral	172,500	172,415	172,500	172,415	30,895	31,613	2,472
– Qualifying revolving retail	43,953	43,212	43,953	43,212	19,676	19,529	1,574
– Other retail	9,053	9,051	9,053	9,051	8,614	8,408	689
Equity	–	–	–	–	–	–	–
Securitisation positions	20,848	20,802	20,848	20,802	5,315	8,200	425
Non-credit obligation assets	11,729	12,204	11,729	12,204	16,479	14,973	1,319
Total Advanced IRB credit risk exposure	433,690	432,967	433,690	432,967	158,021	159,606	12,667
Total credit exposure	670,601	666,925	656,936	652,603	244,063	244,315	19,496

Note
a Collateral and guarantees for Advanced IRB are not included within EAD as these are incorporated in LGD calculations. The average post-CRM EAD is calculated from the last four quarters. This is to show intra-year fluctuations.

Analysis of credit risk

Table 16 continued

Credit exposure class

As at 31 December 2013 (CRD III basis)	EAD pre-CRM[a] Year-end £m	EAD pre-CRM[a] Average £m	EAD post-CRM[a] Year-end £m	EAD post-CRM[a] Average £m	Capital requirements RWA £m	Capital requirements Average RWA £m	Capital requirements Capital reqs £m
Standardised approach							
Central governments or central banks	8,845	10,813	8,839	10,807	2,374	2,688	190
Regional governments or local authorities	197	239	197	239	86	109	7
Public sector entities	161	268	147	254	110	161	9
Multilateral development banks	–	–	–	–	–	–	–
International organisations	–	–	–	–	–	–	–
Institutions	6,043	5,753	5,959	5,669	2,608	2,621	209
Corporates	37,183	41,239	31,535	35,591	30,865	35,032	2,469
Retail	26,914	26,352	26,193	25,631	19,626	19,169	1,570
Secured by mortgages	19,521	20,849	18,860	20,188	7,557	8,821	604
Exposures in default	4,183	3,805	4,152	3,774	5,970	5,527	478
Items associated with high risk	704	734	704	734	1,056	1,101	85
Covered bonds	784	565	784	565	267	165	21
Securitisation positions	277	417	277	417	102	207	8
Collective investment undertakings	329	491	329	491	103	180	8
Other items	3,020	5,669	3,020	5,669	652	751	52
Total Standardised approach credit risk exposure	**108,161**	**117,194**	**100,996**	**110,029**	**71,376**	**76,532**	**5,710**
Foundation IRB approach							
Central governments or central banks	247	276	247	276	101	110	8
Institutions	591	1,001	591	1,001	192	296	16
Corporates	14,918	16,108	14,918	16,108	10,740	11,668	859
Total Foundation approach credit risk exposure	**15,756**	**17,385**	**15,756**	**17,385**	**11,033**	**12,074**	**883**
Advanced IRB approach							
Central governments or central banks	101,655	116,641	101,655	116,641	8,294	7,953	664
Institutions	33,344	29,736	33,344	29,736	3,980	3,764	318
Corporates	131,327	136,038	131,327	136,038	58,928	63,161	4,714
Retail	–	–	–	–	–	–	–
– Small and medium enterprises (SME)	9,235	9,452	9,235	9,452	5,823	6,354	466
– Secured by real estate collateral	172,357	171,531	172,357	171,531	31,403	30,090	2,512
– Qualifying revolving retail	36,689	35,884	36,689	35,884	16,687	14,917	1,335
– Other retail	9,038	9,407	9,038	9,407	8,137	8,417	651
Equity	83	62	83	62	307	229	25
Securitisation positions	19,925	22,595	19,925	22,595	3,101	3,479	248
Non-credit obligation assets	14,430	14,745	14,430	14,745	14,195	14,327	1,136
Total Advanced IRB credit risk exposure	**528,083**	**546,091**	**528,083**	**546,091**	**150,855**	**152,691**	**12,069**
Total credit exposure	**652,000**	**680,670**	**644,835**	**673,505**	**233,264**	**241,297**	**18,662**

A change to the treatment of high quality liquidity pool assets drives a £95.6bn EAD movement between AIRB and Standardised approach, within 'Central governments or central banks', 'Multilateral development banks' and 'International organisations'.

In addition to the point above the remaining movements for EAD Pre-CRM are due to:

Exposures treated under the Standardised approach increased by £17.8bn to £126.0bn, primarily driven by an increase in Corporates due to a growth in underlying exposures.

Further details are provided in tables 18 to 35.

Note

a Collateral and guarantees for Advanced IRB are not included within EAD as these are incorporated in LGD calculations. The average post-CRM EAD is calculated from the last four quarters. This is to show intra-year fluctuations.

Table 17: Banking book reconciliation of IFRS balance sheet and credit risk calculation

This table provides a bridge between the IFRS balance sheet and regulatory exposures subject to credit risk calculation.

The table expands upon Table 1, which shows the difference between the IFRS and regulatory scope of consolidation. In addition, the following balances are excluded for the purpose of determining exposures subject to credit risk calculations:

- Assets not subject to credit risk – this includes items subject to market risk and counterparty credit risk calculations, and settlement balances.
- Specific regulatory adjustments – this includes adjustments to account for differences in IFRS and regulatory netting, items treated as regulatory capital deductions and other adjustments to IFRS balances as prescribed by CRD IV.
- Off balance sheet – this captures items that are off balance sheet for the purpose of IFRS disclosures, but within the scope of credit risk calculations. These balances are shown after applying credit conversion factors to reflect the potential conversion of credit facilities into drawn balances.

The total regulatory exposure is disclosed pre-CRM, as the differences between EAD pre- and post-CRM are already expressed through other tables within the document.

As at 31 December 2014	Accounting balance sheet per published financial statements £m	Deconsolidation of insurance/ other entities £m	Consolidation of banking associates/ other entities £m	Balance sheet per regulatory scope of consolidation £m	Balances not subject to credit risk calculations £m	Specific Regulatory Adjustments and balances adjusted directly through Capital £m	Regulatory Exposure value of IFRS off balance sheet items Post CCFs £m	Total £m
Assets								
Cash and balances at central banks and items in the course of collection from other banks	40,905	(6)	48	40,947	(185)	–	–	40,762
Trading portfolio assets	114,717	–	1	114,718	(116,228)	1,958	561	1,009
Financial assets designated at fair value	38,300	(2,666)	87	35,721	(4,596)	(5,843)	27	25,309
Derivative financial instruments	439,909	(2)	–	439,907	(439,377)	(5)	92	617
Available for sale investments	86,066	(2,271)	42	83,837	(60)	(1,036)	3,577	86,318
Loans and advances to banks	42,111	(142)	84	42,053	(21,611)	(1,144)	–	19,298
Loans and advances to customers	427,767	(4,845)	1,150	424,072	(78,138)	(15,262)	138,800	469,472
Reverse repurchase agreements and other similar secured lending	131,753	–	–	131,753	(131,753)	–	–	–
Other assets	36,378	716	(284)	36,810	(9,101)	107	–	27,816
Total assets	1,357,906	(9,216)	1,128	1,349,818	(801,049)	(21,225)	143,057	670,601

Analysis of credit risk

Table 18: Geographic analysis of credit exposure

This table shows exposure at default pre-CRM (credit risk mitigation), broken down by credit exposure class and geographic location of the counterparty.

EAD pre-CRM credit exposure class						
As at 31 December 2014	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
Standardised approach						
Central governments or central banks	35,243	31,248	29,218	7,828	962	104,499
Regional governments or local authorities	15	437	10	–	401	863
Public sector entities	1	190	–	128	46	365
Multilateral development banks	11	2,254	660	26	134	3,085
International organisations	–	2,609	–	–	–	2,609
Institutions	676	1,297	662	517	3,800	6,952
Corporates	15,657	10,831	15,293	4,750	3,422	49,953
Retail	7,561	4,430	13,147	2,360	213	27,711
Secured by mortgages	10,876	2,486	1,640	629	317	15,948
Exposures in default	858	1,500	395	307	26	3,086
Items associated with high risk	578	448	471	20	35	1,552
Covered bonds	–	858	–	–	–	858
Securitisation positions	–	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–	–
Equity positions	277	74	45	255	9	660
Other items	2,042	258	17	458	77	2,852
Total Standardised approach credit risk exposure	73,795	58,920	61,558	17,278	9,442	220,993
Foundation IRB approach						
Central governments or central banks	–	–	–	176	–	176
Institutions	131	2	–	848	–	981
Corporates	151	185	142	14,283	–	14,761
Total Foundation approach credit risk exposure	282	187	142	15,307	–	15,918
Advanced IRB approach						
Central governments or central banks	1,038	1,932	595	731	2,408	6,704
Institutions	10,835	7,132	9,378	912	2,264	30,521
Corporates	70,588	18,872	37,319	520	2,248	129,547
Retail	181,792	30,560	33	21,944	12	234,341
Equity	–	–	–	–	–	–
Securitisation positions	4,529	544	15,392	269	114	20,848
Non-credit obligation assets	7,614	803	1,742	1,395	175	11,729
Total Advanced IRB credit risk exposure	276,396	59,843	64,459	25,771	7,221	433,690
Total credit risk exposure	350,473	118,950	126,159	58,356	16,663	670,601

Table 18 continued

EAD pre-CRM credit exposure class

As at 31 December 2013 (CRD III basis)	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
Standardised approach						
Central governments or central banks	161	621	810	7,072	181	8,845
Regional governments or local authorities	73	66	58	–	–	197
Public sector entities	1	160	–	–	–	161
Institutions	865	1,193	688	629	2,668	6,043
Corporates	9,482	10,808	9,286	4,702	2,905	37,183
Retail	8,563	5,952	9,856	2,385	158	26,914
Secured by mortgages	12,515	3,971	1,555	1,027	453	19,521
Exposures in default	1,770	1,705	442	242	24	4,183
Items associated with high risk	179	179	231	38	77	704
Covered bonds	–	784	–	–	–	784
Securitisation positions	277	–	–	–	–	277
Collective investment undertakings	–	327	–	2	–	329
Other items	2,099	430	37	438	16	3,020
Total Standardised approach credit risk exposure	**35,985**	**26,196**	**22,963**	**16,535**	**6,482**	**108,161**
Foundation IRB approach						
Central governments or central banks	–	20	–	227	–	247
Institutions	14	17	58	492	10	591
Corporates	163	183	109	14,463	–	14,918
Total foundation approach credit risk exposure	**177**	**220**	**167**	**15,182**	**10**	**15,756**
Advanced IRB approach						
Central governments or central banks	28,137	52,539	16,579	1,050	3,350	101,655
Institutions	13,021	9,819	8,892	637	975	33,344
Corporates	69,723	20,379	38,453	783	1,989	131,327
Retail	170,107	34,559	34	22,608	11	227,319
Equity	83	–	–	–	–	83
Securitisation positions	5,764	1,936	11,652	343	230	19,925
Non-credit obligation assets	6,412	2,010	4,124	1,444	440	14,430
Total Advanced IRB credit risk exposure	**293,247**	**121,242**	**79,734**	**26,865**	**6,995**	**528,083**
Total credit risk exposure	**329,409**	**147,658**	**102,864**	**58,582**	**13,487**	**652,000**

A change to the treatment of high quality liquidity pool assets drives a £95.6bn EAD movement between AIRB and Standardised approach. This impacts 'Central governments or central banks', 'Multilateral development banks' and 'International organisations' within UK, Europe and Americas.

In addition to this material movement, other movements are due to:

Exposure at default pre-CRM increased by £18.6bn to £670.6bn. The key movements by geographical area were as follows:

- Exposure in United Kingdom increased by £21.1bn to £350.5bn driven by recognition of non-default losses against CCP, growth in corporate lending portfolios; partly offset by some of Barclaycard's portfolios migrating to AIRB
- Exposure in Europe decreased by £28.7bn to £119.0bn driven by the rundown of BNC European assets
- Exposure in Americas increased £23.3bn to £126.2bn driven by higher corporate lending and an increase in the US cards portfolio

Analysis of credit risk

Table 19: Industry analysis of credit exposure

This table shows exposure at default pre-CRM (credit risk mitigation), broken down by credit exposure class and the industrial sector associated with the obligor or counterparty.

EAD pre-CRM credit exposure class													
As at 31 December 2014	Government and central banks £m	Banks £m	Other financial institutions £m	Manufacturing £m	Construction £m	Property £m	Energy and water £m	Wholesale and retail, distribution and leisure £m	Business and other services £m	Home Loans £m	Cards, unsecured loans, other personal lending £m	Other £m	Total £m
Standardised approach													
Central governments or central banks	104,499	–	–	–	–	–	–	–	–	–	–	–	104,499
Regional governments or local authorities	221	–	–	–	–	–	26	–	607	–	–	9	863
Public sector entities	160	–	–	3	–	–	19	–	181	–	–	2	365
Multilateral development banks	–	3,085	–	–	–	–	–	–	–	–	–	–	3,085
International organisations	26	–	1,180	–	–	–	–	–	1,403	–	–	–	2,609
Institutions	79	5,232	772	–	8	1	–	177	569	–	110	4	6,952
Corporates	35	725	13,407	4,716	599	1,923	2,887	3,965	14,050	7	4,932	2,707	49,953
Retail	3	84	41	22	10	134	42	69	936	1,902	24,444	24	27,711
Secured by mortgages	–	135	1,091	13	8	779	3	308	2,212	4,244	7,105	50	15,948
Exposures in default	1	41	93	222	41	594	220	195	460	194	945	80	3,086
Items associated with high risk	–	–	566	206	–	–	199	51	511	–	–	19	1,552
Covered bonds	–	444	414	–	–	–	–	–	–	–	–	–	858
Securitisation positions	–	–	–	–	–	–	–	–	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–	–	–	–	–	–	–	–	–
Equity positions	–	6	410	26	14	2	–	20	144	–	–	38	660
Other items	–	414	9	–	–	345	–	–	–	–	–	2,084	2,852
Total Standardised approach credit exposure	105,024	10,166	17,983	5,208	680	3,778	3,396	4,785	21,073	6,347	37,536	5,017	220,993
Foundation IRB approach													
Central governments or central banks	176	–	–	–	–	–	–	–	–	–	–	–	176
Institutions	–	818	–	–	–	–	–	–	163	–	–	–	981
Corporates	491	1,106	66	2,285	353	1,354	454	1,804	4,356	–	–	2,492	14,761
Total Foundation IRB approach credit exposure	667	1,924	66	2,285	353	1,354	454	1,804	4,519	–	–	2,492	15,918
Advanced IRB approach													
Central governments or central banks	6,704	–	–	–	–	–	–	–	–	–	–	–	6,704
Institutions	6,785	21,742	1,424	–	–	–	–	–	570	–	–	–	30,521
Corporates	–	–	10,695	19,846	4,244	28,543	18,460	10,668	26,426	–	43	10,622	129,547
Retail	1	23	2	465	491	1,437	11	1,887	1,732	172,617	49,646	6,029	234,341
Equity	–	–	–	–	–	–	–	–	–	–	–	–	–
Securitisation positions	–	–	20,209	–	–	93	–	154	392	–	–	–	20,848
Non-credit obligation assets	–	1,268	–	–	–	–	–	–	–	–	–	10,461	11,729
Total Advanced IRB approach credit exposure	13,490	23,033	32,330	20,311	4,735	30,073	18,471	12,709	29,120	172,617	49,689	27,112	433,690
Total credit exposures	119,181	35,123	50,379	27,804	5,768	35,205	22,321	19,298	54,712	178,964	87,225	34,621	670,601

Analysis of credit risk

Table 19 continued

EAD pre-CRM credit exposure class

As at 31 December 2013 (CRD III basis)	Government and central banks £m	Banks £m	Other financial institutions £m	Manufacturing £m	Construction £m	Property £m	Energy and water £m	Wholesale and retail, distribution and leisure £m	Business and other services £m	Home Loans £m	Cards, unsecured loans, other personal lending £m	Other £m	Total £m
Standardised approach													
Central governments or central banks	8,845	–	–	–	–	–	–	–	–	–	–	–	8,845
Regional governments or local authorities	–	–	–	–	–	–	32	–	152	–	–	13	197
Public sector entities	–	–	–	–	–	–	35	–	97	–	–	29	161
Multilateral development banks	–	–	–	–	–	–	–	–	–	–	–	–	–
International organisations	–	–	–	–	–	–	–	–	–	–	–	–	–
Institutions	–	4,693	835	4	–	1	66	119	227	–	–	98	6,043
Corporates	–	73	5,783	5,153	704	1,745	2,223	3,736	10,280	3	5,263	2,220	37,183
Retail	–	–	19	37	28	183	230	107	1,138	1,900	23,231	41	26,914
Secured by mortgages	–	–	662	63	36	1,005	1	152	2,831	6,289	8,447	35	19,521
Exposures in default	–	–	67	156	94	655	26	223	276	355	2,045	286	4,183
Items associated with high risk	–	–	344	18	10	11	27	21	272	–	–	1	704
Covered bonds	–	227	557	–	–	–	–	–	–	–	–	–	784
Securitisation positions	–	–	277	–	–	–	–	–	–	–	–	–	277
Collective investment undertakings	–	–	327	–	–	–	–	–	–	–	2	–	329
Other items	–	402	–	–	–	–	–	24	–	–	–	2,594	3,020
Total Standardised approach credit exposure	**8,845**	**5,395**	**8,871**	**5,431**	**872**	**3,600**	**2,640**	**4,382**	**15,273**	**8,547**	**38,988**	**5,317**	**108,161**
Foundation IRB approach													
Central governments or central banks	247	–	–	–	–	–	–	–	–	–	–	–	247
Institutions	–	591	–	–	–	–	–	–	–	–	–	–	591
Corporates	–	–	1,159	2,221	393	1,470	601	1,890	4,771	–	–	2,413	14,918
Total Foundation IRB approach credit exposure	**247**	**591**	**1,159**	**2,221**	**393**	**1,470**	**601**	**1,890**	**4,771**	**–**	**–**	**2,413**	**15,756**
Advanced IRB approach													
Central governments or central banks	101,655	–	–	–	–	–	–	–	–	–	–	–	101,655
Institutions	–	24,613	2,575	–	–	–	–	–	5,855	–	–	301	33,344
Corporates	–	29	16,629	16,962	4,186	26,433	19,110	11,614	25,379	–	21	10,964	131,327
Retail	–	–	30	491	502	1,555	11	2,009	2,342	171,923	43,131	5,325	227,319
Equity	–	–	83	–	–	–	–	–	–	–	–	–	83
Securitisation positions	–	–	19,826	–	–	99	–	–	–	–	–	–	19,925
Non-credit obligation assets	–	1,310	–	–	–	–	–	–	–	–	–	13,120	14,430
Total Advanced IRB approach credit exposure	**101,655**	**25,952**	**39,143**	**17,453**	**4,688**	**28,087**	**19,121**	**13,623**	**33,576**	**171,923**	**43,152**	**29,710**	**528,083**
Total credit exposures	**110,747**	**31,938**	**49,173**	**25,105**	**5,953**	**33,157**	**22,362**	**19,895**	**53,620**	**180,470**	**82,140**	**37,440**	**652,000**

A change to the treatment of high quality liquidity pool assets drives a £95.6bn EAD movement between Advanced IRB and Standardised approach. This impacts 'Central governments and central banks', 'Multilateral development banks' and 'International organisations'.

In addition to this material movement, other movements are due to:

Exposure at default pre-CRM increased by £18.6bn to £670.6bn. The key movements by industry sector were as follows:

- Governments and central bank increased by £8.4bn to £119.2bn driven by an increase in liquidity pool assets and the reclassification of ESHLA from business and other services following regulatory guidance
- Cards, unsecured loans and other personal lending increased by £5.1bn to £87.2bn driven by balance sheet growth across portfolios and application of new methodology in the exposure model in order to meet changes in regulatory guidance
- Manufacturing increased by £2.7bn to £27.8bn driven by an increase in lending, primarily due to new facilities
- Other category decreased by £2.8bn to £34.6bn driven by the change in treatment of deferred tax assets under CRD IV, now treated as a partial capital deduction

Table 20: Residual maturity analysis credit exposures

This table shows exposure at default pre-CRM (credit risk mitigation), broken down by credit exposure class and residual maturity. Residual maturity is the remaining number of years before an obligation becomes due according to the existing terms of the agreement.

EAD pre-CRM credit exposure class							
As at 31 December 2014	On demand and qualifying revolving £m	Under one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years or undated[a] £m	Total £m
Standardised approach							
Central governments or central banks	36,194	7,058	20,674	7,619	18,849	14,105	104,499
Regional governments or local authorities	7	324	444	–	86	2	863
Public sector entities	12	44	137	103	64	5	365
Multilateral development banks	–	466	859	498	955	307	3,085
International organisations	13	13	1,862	152	569	–	2,609
Institutions	499	5,875	255	244	44	35	6,952
Corporates	5,393	17,333	10,060	8,172	2,759	6,236	49,953
Retail	17,241	1,472	2,413	2,756	2,179	1,650	27,711
Secured by mortgages	25	2,634	3,025	3,265	3,458	3,541	15,948
Exposures in default	590	850	373	215	650	408	3,086
Items associated with high risk	–	29	160	87	22	1,254	1,552
Covered bonds	–	27	738	23	70	–	858
Securitisation positions	–	–	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–	–	–
Equity positions	–	47	173	250	–	190	660
Other items	204	–	78	–	–	2,570	2,852
Total Standardised approach credit risk exposure	60,178	36,172	41,251	23,384	29,705	30,303	220,993
Foundation IRB approach							
Central governments or central banks	–	48	13	114	–	1	176
Institutions	1	326	522	132	–	–	981
Corporates	1,535	6,554	3,965	2,374	306	27	14,761
Total Foundation IRB approach credit risk exposure	1,536	6,928	4,500	2,620	306	28	15,918
Advanced IRB approach							
Central governments or central banks	2,110	2,474	887	635	598	–	6,704
Institutions	4,482	12,565	3,794	1,261	1,735	6,684	30,521
Corporates	6,650	17,897	28,268	49,043	4,793	22,896	129,547
Retail	48,959	3,147	6,329	11,152	22,521	142,233	234,341
Equity	–	–	–	–	–	–	–
Securitisation positions	–	6,604	5,607	220	6,175	2,242	20,848
Non-credit obligation assets	579	345	198	–	–	10,607	11,729
Total Advanced IRB credit risk exposure	62,780	43,032	45,083	62,311	35,822	184,662	433,690
Total credit risk exposure	124,494	86,132	90,834	88,315	65,833	214,993	670,601

Note
a The Over ten years or undated category includes some items without contractual liquidity such as cash and tax assets. These are found in the Other items and Non-credit obligations assets lines.

Table 20 continued

EAD pre-CRM credit exposure class

As at 31 December 2013 (CRD III basis)	On demand and qualifying revolving £m	Under one year £m	Over one year but not more than three years £m	Over three years but not more than five years £m	Over five years but not more than ten years £m	Over ten years or undated[a] £m	Total £m
Standardised approach							
Central governments or central banks	4,773	3,126	586	117	199	44	8,845
Regional governments or local authorities	–	112	13	20	–	52	197
Public sector entities	36	74	38	2	6	5	161
Institutions	415	5,067	218	38	108	197	6,043
Corporates	1,954	15,961	8,262	5,853	2,856	2,297	37,183
Retail	16,079	1,318	2,361	2,369	4,279	508	26,914
Secured by mortgages	7	2,225	3,430	4,146	4,382	5,331	19,521
Exposures in default	1,727	820	339	271	790	236	4,183
Items associated with high risk	–	8	15	57	–	624	704
Covered bonds	–	58	617	27	77	5	784
Securitisation positions	–	1	–	–	–	276	277
Collective investment undertakings	2	301	16	10	–	–	329
Other items	132	160	91	–	–	2,637	3,020
Total Standardised approach credit risk exposure	**25,125**	**29,231**	**15,986**	**12,910**	**12,697**	**12,212**	**108,161**
Foundation IRB approach							
Central governments or central banks	–	82	18	146	1	–	247
Institutions	1	121	353	116	–	–	591
Corporates	1,906	4,873	4,906	2,766	447	19	14,918
Total foundation IRB approach credit risk exposure[a]	**1,907**	**5,076**	**5,278**	**3,028**	**448**	**19**	**15,756**
Advanced IRB approach							
Central governments or central banks	32,331	11,927	12,298	11,234	21,578	12,287	101,655
Institutions	3,764	12,504	7,429	2,494	1,937	5,216	33,344
Corporates	7,211	17,350	37,346	42,112	5,166	22,142	131,327
Retail	41,093	4,124	5,834	11,299	22,255	142,714	227,319
Equity	–	–	83	–	–	–	83
Securitisation positions	–	7,013	4,755	539	4,464	3,154	19,925
Non-credit obligation assets	263	1,047	213	–	–	12,907	14,430
Total Advanced IRB credit risk exposure	**84,662**	**53,965**	**67,958**	**67,678**	**55,400**	**198,420**	**528,083**
Total credit risk exposure	**113,180**	**83,206**	**92,405**	**81,277**	**71,285**	**210,647**	**652,000**

A change to the treatment of high quality liquidity pool assets drives a £95.6bn EAD movement between AIRB and Standardised approach. This impacts all maturity bands for 'Central governments and central banks', 'Multilateral development banks' and 'International organisations'.

In addition to this material movement, other movements are due to:

Exposures at default pre-CRM increased by £18.6bn to £670.6bn. The key movements by maturity band were as follows:

- On demand and qualifying revolving increased by £11.3bn to £124.5bn driven by growth in Barclaycards portfolios
- Under one year increased by £2.9bn to £86.1bn driven by the maturing of bond positions being replaced with new positions and higher corporate lending
- Exposures over one year but not more than three years decreased by £1.6bn to £90.8bn driven by reduction in existing bond and money market positions and the reduction in mortgage linked exposures; partly offset by an increase in corporate loans
- Exposure over three years but not more than five years increased by £7.0bn to £88.3bn driven by an increase in corporate loans
- Exposure over 5 years but not more than ten years decreased by £5.5bn to £65.8bn driven by a decrease in corporate loans
- Over ten years or undated increased by £4.3bn to £215.0bn driven by recognition of non-default losses against CCPs and growth in UK mortgages, offset by rundown of BNC European assets.

Note
a These have been restated so that they are aligned with the 2014 basis of preparation, which reflects more accurately the residual maturity of the underlying exposures

Credit Risk Mitigation

Barclays employs a range of techniques and strategies to actively mitigate credit risks. Within the regulatory framework this is commonly referred to as credit risk mitigation (CRM) and is fully discussed on page 133 of this document. In the case of collateral specifically, the recognition of the mitigant is reflected through regulatory calculations in several different ways. This is dependent on the nature of the collateral and the underlying approach applied to the exposure.

Table 21: Exposures covered by guarantees and credit derivatives – Standardised approach

This table shows the value of credit risk exposures, subject to the Standardised approach, covered by unfunded credit protection in the form of guarantees or credit derivatives. Under this approach, the risk weight of the underlying exposure covered is substituted by that of the credit protection provider – generally a central government or institution. Any proportion uncovered is risk weighted using the normal framework. The below table has been populated post substitution effect.

Credit exposure class	Exposures covered by unfunded credit protection £m
As at 31 December 2014[a]	
Central governments or central banks	–
Regional governments or local authorities	–
Public sector entities	–
Multilateral development banks	–
International organisations	–
Institutions	1,517
Corporates	1,183
Retail	7
Secured by mortgages	–
Exposures in default	2
Items associated with high risk	–
Covered bonds	–
Securitisation positions	–
Collective investment undertakings	–
Equity positions	–
Other items	–
Total	2,709

Financial collateral, as opposed to the unfunded guarantees and credit derivatives covered by the table above, includes but is not exclusive of, cash, debt securities, equities and gold, that can be used to directly reduce credit risk exposures subject to the Standardised approach. The impact of financial collateral CRM can be observed on page 48 and 49, as the difference between EAD pre-CRM and EAD post-CRM.

Where an exposure is fully or partially secured on property under the Standardised approach, this is considered in the risk weight applied, as discussed on page 46.

Table 22: Collateral and guarantees for IRB approach

Where exposures are subject to Advanced calculations, Barclays typically recognises eligible collateral by reducing the modelled downturn loss given default (LGD) metric. For the Foundation IRB approach, eligible collateral is also recognised through the LGD in accordance with regulatory formulas.

The below table represent the nominal value of exposures covered by eligible collateral for Advanced calculations.

IRB exposure class	Foundation IRB		Advanced IRB	
	Exposures covered by unfunded credit protection £m	Exposures covered by funded credit protection £m	Exposures covered by unfunded credit protection £m	Exposures covered by funded credit protection £m
As at 31 December 2014[a]				
Central governments or central banks	–	–	585	–
Institutions	–	–	4,525	1,263
Corporates	11	4,104	6,046	37,716
Retail	–	–	52	474,429
Equity	–	–	–	–
Securitisation positions	–	–	–	–
Non-credit obligation assets	–	–	–	–
Total	11	4,104	11,208	513,408

Note
a This disclosure is a new requirement; as such, no prior period comparatives have been included.

Credit quality analysis of Standardised exposures

Credit Rating Agencies (ECAIs)
Under the Standardised approach, credit ratings assigned by ECAIs are used in the calculation of RWAs. The PRA determines which agencies may be used to determine the correct risk weight. Barclays uses ratings assigned by the following agencies for credit risk calculations:

- Standard & Poor's
- Moody's
- Fitch

These ratings are used in the calculation of risk weights for the central governments and central banks, institutions and corporate exposure classes[a].

Rated and unrated counterparties
The following section summarises the rules governing standardised calculations.

Each exposure must be assigned to one of six credit quality steps if a rating is available, as defined in the table below. After assignment to a quality step, exposure class and maturity are then used to determine the risk weight percentage. Exposures cannot be assigned a risk weight lower than that of the sovereign risk of the country in which the asset is located. The following table is a simplified version of the risk weight allocation process.

Where a credit rating is not available, a default treatment is applied as specified by regulatory guidance. In most cases this default risk weight equates to that which is applied to credit quality step 3.

Table 23: Relationship of long-term external credit ratings to credit quality steps under the Standardised approach

Credit Quality Step	Standard and Poor's	Moody's	Fitch
Credit Quality Step 1	AAA to AA-	Aaa to Aa3	AAA to AA-
Credit Quality Step 2	A+ to A-	A1 to A3	A+ to A-
Credit Quality Step 3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
Credit Quality Step 4	BB-+ to BB-	Ba1 to Ba3	BB+ to BB-
Credit Quality Step 5	B+ to B-	B1 to B3	B+ to B-
Credit Quality Step 6	CCC+ and below	Caa1 and below	CCC+ and below

Table 24: Credit quality steps and risk weights under the Standardised approach
This table shows the prescribed risk weights associated with credit quality steps.

Credit Quality Step		Institutions (including banks)			
		Sovereign method	Credit assessment method		
	Corporates	Credit assessment method	Maturity > 3 months	Maturity 3 months or less	Central governments or central banks
Credit Quality Step 1	20%	20%	20%	20%	0%
Credit Quality Step 2	50%	50%	50%	20%	20%
Credit Quality Step 3	100%	100%	50%	20%	50%
Credit Quality Step 4	100%	100%	100%	50%	100%
Credit Quality Step 5	150%	100%	100%	50%	100%
Credit Quality Step 6	150%	150%	150%	150%	150%

Exposures to international organisations are generally assigned a risk weight of 0%.

If considered fully secured by residential or commercial property, a retail exposure is assigned a risk weight of 35% or 50% respectively. If only partially secured, a more complex framework is applied. Other retail exposures are generally assigned a risk weight of 75%.

The unsecured portion of a past due exposure is assigned a risk weight of either 150% or 100%, depending on the specific credit risk adjustments recognised.

Items associated with high risk are assigned a risk weight of 150%, whereas equity positions, not subject to threshold calculations, are generally assigned a risk weight of 100%.

Other Items are assigned a risk weight of 100%, unless they relate to cash in hand (0%) or items in the course of collection (20%).

Notes
a The rating agency DBRS is used to calculate risk weight for securitisation exposures only. Please see page 149 for further details.
b The mapping of external ratings to credit quality steps applicable as at year-end 2014 is found in Supervisory Statement SS10/13, published by the Prudential Regulation Authority in December 2013 (see http://www.bankofengland.co.uk/pra/Documents/publications/ss/2013/ss1013.pdf". Implementing technical standards that will update these mappings are under preparation by the EBA (see https://www.eba.europa.eu/regulation-and-policy/external-credit-assessment-institutions-ecai).

Analysis of credit risk

Table 25: Credit quality step analysis of pre-CRM exposure and capital deductions under the Standardised approach

This table shows exposure at default pre-CRM (credit risk mitigation), broken down by credit exposure class and credit quality step. This table includes exposures subject to the Standardised approach only. The 'uniform regulatory treatment' is equivalent, in most cases, to credit quality step 3 and is applied where a rating is not available or has not been used for the RWA calculation. This is the case for the majority of retail and smaller business customers.

EAD pre-CRM credit exposure class As at 31 December 2014	Credit Quality Step 1 £m	Credit Quality Step 2 £m	Credit Quality Step 3 £m	Credit Quality Step 4 £m	Credit Quality Step 5 £m	Credit Quality Step 6 £m	Uniform regulatory treatment £m	Total £m	Deduction from Capital Resources £m
Central governments or central banks	101,524	78	342	4	1,096	172	1,283	104,499	–
Regional governments or local authorities	619	–	–	8	–	–	236	863	–
Public sector entities	48	10	–	–	–	–	307	365	–
Multilateral development banks	3,060	–	–	–	–	–	25	3,085	–
International organisations	2,609	–	–	–	–	–	–	2,609	–
Institutions	1,022	1,258	1,352	59	–	3	3,258	6,952	–
Corporates	575	1,764	584	294	164	34	46,538	49,953	–
Retail	–	–	–	–	–	–	27,711	27,711	–
Secured by mortgages	–	–	–	–	–	–	15,948	15,948	–
Exposures in default	–	–	41	–	–	–	3,045	3,086	–
Items associated with high risk	–	–	–	–	–	–	1,552	1,552	–
Covered bonds	698	160	–	–	–	–	–	858	–
Securitisation positions	–	–	–	–	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–	–	–	–	–
Equity positions	–	–	–	–	–	–	660	660	–
Other items	345	–	–	–	–	–	2,507	2,852	–
Total Standardised approach credit exposure/capital	110,500	3,270	2,319	365	1,260	209	103,070	220,993	–
As at 31 December 2013 (CRD III basis)									
Central governments or central banks	1,261	184	436	–	1,051	–	5,913	8,845	–
Regional governments or local authorities	–	–	–	20	–	–	177	197	–
Public sector entities	36	–	–	–	25	–	100	161	–
Multilateral development banks	–	–	–	–	–	–	–	–	–
International organisations	–	–	–	–	–	–	–	–	–
Institutions	604	694	471	61	–	181	4,032	6,043	–
Corporates	14	1,234	473	107	48	70	35,237	37,183	–
Retail	–	–	–	–	–	–	26,914	26,914	–
Secured By Mortgages	–	–	–	–	–	–	19,521	19,521	–
Exposures in default	–	–	–	–	–	–	4,183	4,183	–
Items associated with high risk	–	–	–	–	–	–	704	704	766
Covered Bonds	419	227	11	–	–	–	127	784	–
Securitisation positions	–	–	–	–	–	–	277	277	–
Collective investment undertakings	196	20	111	–	–	–	2	329	–
Other items	–	–	–	–	–	–	3,020	3,020	–
Total Standardised approach credit exposure/capital	2,530	2,359	1,502	188	1,124	251	100,207	108,161	766

Exposures subject to the Standardised approach increased by £112.8bn to £221.0bn, primarily driven by movements in credit quality steps 1 and uniform regulatory treatment:

- Credit quality step 1 increased by £108.0bn to £110.5bn driven by change in treatment of high quality liquidity pools assets from AIRB to standardised approach
- Uniform regulatory treatment increased £2.9bn to £103.1bn driven by recognition of non-default losses against CCPs.

Table 26: Credit quality step analysis of post-CRM exposure and capital deductions under the Standardised approach
The difference between exposure at default pre-CRM set out in table 25 and exposures at default post-CRM in table 26 below is the impact of financial collateral CRM as described at the bottom of table 21 on page 45.

EAD post-CRM credit exposure class As at 31 December 2014	Credit Quality Step 1 £m	Credit Quality Step 2 £m	Credit Quality Step 3 £m	Credit Quality Step 4 £m	Credit Quality Step 5 £m	Credit Quality Step 6 £m	Uniform regulatory treatment £m	Total £m	Deduction from Capital Resources £m
Central governments or central banks	101,524	78	342	4	1,096	172	1,283	104,499	–
Regional governments or local authorities	618	–	–	8	–	–	236	862	–
Public sector entities	48	–	–	–	–	–	306	354	–
Multilateral development banks	3,060	–	–	–	–	–	25	3,085	–
International organisations	2,609	–	–	–	–	–	–	2,609	–
Institutions	1,022	1,258	1,352	59	–	–	3,074	6,765	–
Corporates	575	1,764	584	294	164	34	33,929	37,344	–
Retail	–	–	–	–	–	–	26,879	26,879	–
Secured by mortgages	–	–	–	–	–	–	15,948	15,948	–
Exposures in default	–	–	41	–	–	–	3,020	3,061	–
Items associated with high risk	–	–	–	–	–	–	1,552	1,552	–
Covered bonds	698	160	–	–	–	–	–	858	–
Securitisation positions	–	–	–	–	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–	–	–	–	–
Equity positions	–	–	–	–	–	–	660	660	–
Other items	345	–	–	–	–	–	2,507	2,852	–
Total Standardised approach credit exposure/capital	110,499	3,260	2,319	365	1,260	206	89,419	207,328	–
As at 31 December 2013 (CRD III basis)									
Central governments or central banks	1,261	184	436	–	1,051	–	5,907	8,839	–
Regional governments or local authorities	–	–	–	20	–	–	177	197	–
Public sector entities	36	–	–	–	25	–	86	147	–
Multilateral development banks	–	–	–	–	–	–	–	–	–
International organisations	–	–	–	–	–	–	–	–	–
Institutions	604	694	471	61	–	181	3,948	5,959	–
Corporates	14	1,234	473	107	48	70	29,589	31,535	–
Retail	–	–	–	–	–	–	26,193	26,193	–
Secured by mortgages	–	–	–	–	–	–	18,860	18,860	–
Exposures in default	–	–	–	–	–	–	4,152	4,152	–
Items associated with high risk	–	–	–	–	–	–	704	704	766
Covered bonds	419	227	11	–	–	–	127	784	–
Securitisation positions	–	–	–	–	–	–	277	277	–
Collective investment undertakings	196	20	111	–	–	–	2	329	–
Other items	–	–	–	–	–	–	3,020	3,020	–
Total Standardised approach credit exposure/capital	2,530	2,359	1,502	188	1,124	251	93,042	100,996	766

Credit quality analysis of IRB exposures

The following section provides breakdowns of inputs into risk weighted asset calculations. Please note that risk weights and risk factors may be volatile in granular breakdowns of wholesale exposures, especially in categories that are more sparsely populated. This is often due to the addition or removal of a relatively large exposure to or from narrow categories when its risk factors are different to the category average. This happens in the normal course of business, for instance, following new lending, repayments, or syndications. See page 121 for a discussion of IRB models.

Table 27: Internal default grade probabilities and mapping to external ratings

This table shows Barclays internal view of the relationship between external rating agency grades and our own internal scale for default grade bands (DG bands) for wholesale exposures. Note that Barclays DG system follows estimation rules and governance that may differ from those of ratings agencies. As such this relationship must be seen as approximate and dynamic through time.

	Default Probability					
DG band	>=Min	Mid	<Max	Financial statements description	Standard and Poor's	Moody's
1	0.00%	0.01%	0.02%	Strong	AAA, AA+	Aaa, Aa1, Aa2
2	0.02%	0.03%	0.03%		AA	Aa3
3	0.03%	0.04%	0.05%		AA-	A1
4	0.05%	0.08%	0.10%		A+, A	A2
5	0.10%	0.13%	0.15%		A-, BBB+	A3
6	0.15%	0.18%	0.20%		BBB	Baa1, Baa2
7	0.20%	0.23%	0.25%			Baa3
8	0.25%	0.28%	0.30%			
9	0.30%	0.35%	0.40%		BBB-	
10	0.40%	0.45%	0.50%		BB+	Ba1
11	0.50%	0.55%	0.60%			Ba2
12	0.60%	0.90%	1.20%	Satisfactory	BB, BB-	
13	1.20%	1.38%	1.55%			Ba3
14	1.55%	1.85%	2.15%			B1
15	2.15%	2.60%	3.05%		B+	
16	3.05%	3.75%	4.45%			B2
17	4.45%	5.40%	6.35%		B	B3
18	6.35%	7.50%	8.65%		B-	Caa1
19	8.65%	10.00%	11.35%			
20	11.35%	15.00%	18.65%	Higher risk		Caa2
21	18.65%	30.00%	100.00%		CCC+, CCC, CCC-, CC+, C	Caa3, Ca, C

IRB wholesale obligor grade disclosure

The following tables show credit risk and counterparty credit risk exposure at default post-CRM for the Advanced IRB approach and Foundation IRB approach for wholesale portfolios within both the trading and banking books. Separate tables are provided for the following credit exposure classes, central governments and central banks (table 28), institutions (table 29), corporates (table 30), corporates subject to slotting (table 31), SME (table 32), secured retail (table 33), revolving retail (table 34), and other retail (table 35).

Analysis of credit risk

Table 28: IRB wholesale obligor grade disclosure for central governments & central banks

Obligor grade disclosure for Advanced IRB

As at 31 December 2014	Exposure value: Total £m	Exposure value: Of which: arising from counterparty credit risk £m	Average exposure value £m	Undrawn Commitments £m	Average Probability of Default (PD) %	Exposure weighted average LGD %	Risk weighted exposure amount £m	Exposure weighted average risk weight %	Expected Loss £m
DG1: 0.00-0.02%	9,571	7,185	9,576	1,559	0.0%	45.0%	525	5.5%	–
DG2: 0.02-0.03%	726	683	2,846	–	0.0%	45.0%	61	8.4%	–
DG3: 0.03-0.05%	3,975	2,819	5,770	859	0.0%	41.4%	281	7.1%	1
DG4: 0.05-0.10%	5,438	3,169	3,387	–	0.1%	45.0%	2,293	42.2%	4
DG5: 0.10-0.15%	2	1	73	–	0.1%	50.5%	2	100.0%	–
DG6: 0.15-0.20%	815	220	1,227	11	0.2%	18.1%	104	12.8%	–
DG7: 0.20-0.25%	59	59	50	–	0.2%	48.2%	47	79.7%	–
DG8: 0.25-0.30%	–	–	33	–	–	–	–	–	–
DG9: 0.30-0.40%	348	98	417	–	0.4%	46.9%	205	58.9%	1
DG10: 0.40-0.50%	–	–	29	–	–	–	–	–	–
DG11: 0.50-0.60%	5	3	255	–	0.6%	47.0%	4	80.0%	–
DG12: 0.60-1.20%	64	64	62	–	0.9%	45.0%	96	150.0%	–
DG13: 1.20-1.55%	–	–	–	–	–	–	–	–	–
DG14: 1.55-2.15%	–	–	–	–	–	–	–	–	–
DG15: 2.15-3.05%	–	–	–	–	–	–	–	–	–
DG16: 3.05-4.45%	–	–	–	–	–	–	–	–	–
DG17: 4.45-6.35%	–	–	–	–	–	–	–	–	–
DG18: 6.35-8.65%	1	1	–	–	7.5%	66.4%	1	100.0%	–
DG19: 8.65-11.35%	–	–	1	–	–	–	–	–	–
DG20: 11.35-18.65%	–	–	6	–	–	–	–	–	–
DG21: 18.65-100%	2	–	2	–	35.2%	78.0%	8	400.0%	–
In default	–	–	–	–	–	–	–	–	–
Total	21,006	14,302	23,734	2,429	0.1%	43.3%	3,627	17.3%	6
As at 31 December 2013 (CRD III basis)									
DG1: 0.00-0.02%	102,046	4,775	117,369	2,185	0.0%	45.0%	7,675	7.5%	3
DG2: 0.02-0.03%	524	270	2,271	–	0.0%	45.2%	65	12.5%	–
DG3: 0.03-0.05%	4,940	2,560	3,518	2	0.0%	45.8%	444	9.0%	1
DG4: 0.05-0.10%	2,149	1,926	2,922	6	0.1%	45.5%	1,059	49.3%	1
DG5: 0.10-0.15%	66	63	769	–	0.1%	48.3%	24	36.3%	–
DG6: 0.15-0.20%	1,562	540	901	4	0.2%	30.6%	292	21.8%	1
DG7: 0.20-0.25%	24	24	11	–	0.2%	48.1%	17	0.0%	–
DG8: 0.25-0.30%	126	121	197	–	0.3%	45.0%	36	29.0%	–
DG9: 0.30-0.40%	317	117	355	–	0.4%	45.0%	182	57.2%	1
DG10: 0.40-0.50%	34	13	33	–	0.4%	45.0%	28	81.8%	–
DG11: 0.50-0.60%	286	35	288	4	0.5%	49.9%	184	64.1%	1
DG12: 0.60-1.20%	83	74	67	–	0.7%	45.0%	101	121.3%	–
DG13: 1.20-1.55%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG14: 1.55-2.15%	20	20	29	–	1.8%	63.0%	24	0.0%	–
DG15: 2.15-3.05%	–	–	10	–	2.6%	63.0%	–	161.4%	–
DG16: 3.05-4.45%	1	–	2	–	3.4%	73.0%	–	196.3%	–
DG17: 4.45-6.35%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG18: 6.35-8.65%	3	–	14	–	7.0%	68.0%	8	241.6%	–
DG19: 8.65-11.35%	1	–	5	–	10.0%	68.0%	3	284.2%	–
DG20: 11.35-18.65%	11	–	5	–	12.3%	73.0%	46	405.2%	1
DG21: 18.65-100%	–	–	–	–	0.0%	0.0%	–	0.0%	–
In default	–	–	–	–	0.0%	0.0%	–	0.0%	–
Total	112,193	10,538	128,766	2,201	0.0%	44.9%	10,188	9.1%	9

Analysis of credit risk

Table 28 continued

Obligor grade disclosure for Foundation IRB

As at 31 December 2014	Exposure value: Total £m	Exposure value: Of which: arising from counterparty credit risk £m	Average exposure value £m	Undrawn Commitments £m	Average Probability of Default (PD) %	Exposure weighted average LGD %	Risk weighted exposure amount £m	Exposure weighted average risk weight %	Expected Loss £m
DG1: 0.00-0.02%	–	–	–	–	–	–	–	–	–
DG2: 0.02-0.03%	–	–	–	–	–	–	–	–	–
DG3: 0.03-0.05%	–	–	–	–	–	–	–	–	–
DG4: 0.05-0.10%	–	–	–	–	–	–	–	–	–
DG5: 0.10-0.15%	–	–	–	–	–	–	–	–	–
DG6: 0.15-0.20%	92	1	155	9	0.2%	45.0%	41	44.6%	–
DG7: 0.20-0.25%	72	1	18	–	0.2%	45.0%	33	45.8%	–
DG8: 0.25-0.30%	–	–	–	–	–	–	–	–	–
DG9: 0.30-0.40%	–	–	–	–	–	–	–	–	–
DG10: 0.40-0.50%	–	–	5	–	–	–	–	–	–
DG11: 0.50-0.60%	–	–	–	–	–	–	–	–	–
DG12: 0.60-1.20%	–	–	–	–	–	–	–	–	–
DG13: 1.20-1.55%	–	–	–	–	–	–	–	–	–
DG14: 1.55-2.15%	–	–	–	–	–	–	–	–	–
DG15: 2.15-3.05%	–	–	1	–	–	–	–	–	–
DG16: 3.05-4.45%	–	–	3	–	–	–	–	–	–
DG17: 4.45-6.35%	14	–	7	–	5.4%	45.0%	22	157.1%	–
DG18: 6.35-8.65%	–	–	24	–	–	–	–	–	–
DG19: 8.65-11.35%	–	–	–	–	–	–	–	–	–
DG20: 11.35-18.65%	–	–	–	–	–	–	–	–	–
DG21: 18.65-100%	–	–	3	–	–	–	–	–	–
In default	–	–	–	–	–	–	–	–	–
Total	178	2	216	9	0.6%	45.0%	96	53.9%	–
As at 31 December 2013 (CRD III basis)									
DG1: 0.00-0.02%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG2: 0.02-0.03%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG3: 0.03-0.05%	51	–	61	–	0.0%	31.6%	5	10.7%	–
DG4: 0.05-0.10%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG5: 0.10-0.15%	–	–	33	–	0.0%	0.0%	–	0.0%	–
DG6: 0.15-0.20%	190	2	174	58	0.0%	45.0%	83	43.9%	–
DG7: 0.20-0.25%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG8: 0.25-0.30%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG9: 0.30-0.40%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG10: 0.40-0.50%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG11: 0.50-0.60%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG12: 0.60-1.20%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG13: 1.20-1.55%	–	–	3	–	0.0%	0.0%	–	0.0%	–
DG14: 1.55-2.15%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG15: 2.15-3.05%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG16: 3.05-4.45%	8	–	5	–	3.7%	45.0%	13	145.1%	–
DG17: 4.45-6.35%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG18: 6.35-8.65%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG19: 8.65-11.35%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG20: 11.35-18.65%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG21: 18.65-100%	–	–	–	–	0.0%	0.0%	–	0.0%	–
In default	–	–	–	–	0.0%	0.0%	–	0.0%	–
Total	249	2	276	58	0.2%	42.3%	101	40.8%	–

The average risk weight associated with Advanced IRB exposure to central governments and central banks increased from 9.1% to 17.3%. This is mainly due to a change in the treatment of high quality liquidity assets that drove the exposure under DG1 lower, from £102.0bn to £9.6bn. The removal of these highly rated exposures had the effect of increasing the total portfolio risk weight.

Similarly, the Foundation IRB risk weight increased from 40.8% to 53.9% driven by the decrease of a highly-rated government exposure under DG3.

Table 29: IRB wholesale obligor grade disclosure for institutions

Obligor grade disclosure for Advanced IRB

As at 31 December 2014	Exposure value: Total £m	Exposure value: Of which: arising from counterparty credit risk £m	Average exposure value £m	Undrawn Commitments £m	Average Probability of Default (PD) %	Exposure weighted average LGD %	Risk weighted exposure amount £m	Exposure weighted average risk weight %	Expected Loss £m
DG1: 0.00-0.02%	370	278	1,296	160	–	45.0%	46	12.6%	–
DG2: 0.02-0.03%	–	–	–	–	–	–	–	–	–
DG3: 0.03-0.05%	34,862	12,183	39,956	1,869	–	41.9%	8,078	23.2%	7
DG4: 0.05-0.10%	9,410	4,559	6,849	112	0.1%	41.9%	2,913	31.0%	4
DG5: 0.10-0.15%	1,043	691	1,319	71	0.1%	45.8%	471	45.2%	1
DG6: 0.15-0.20%	745	253	547	14	0.2%	45.6%	333	44.7%	1
DG7: 0.20-0.25%	587	315	404	96	0.2%	46.9%	292	49.8%	1
DG8: 0.25-0.30%	580	99	456	40	0.3%	43.6%	302	52.1%	1
DG9: 0.30-0.40%	1,450	402	1,011	108	0.4%	46.4%	949	65.5%	2
DG10: 0.40-0.50%	189	137	177	15	0.5%	48.4%	193	101.9%	1
DG11: 0.50-0.60%	30	23	146	7	0.6%	45.3%	22	74.2%	–
DG12: 0.60-1.20%	201	159	197	24	0.8%	47.5%	255	126.6%	1
DG13: 1.20-1.55%	61	57	63	3	1.3%	45.0%	97	158.7%	1
DG14: 1.55-2.15%	11	9	102	–	2.0%	50.7%	15	140.8%	–
DG15: 2.15-3.05%	36	31	43	2	2.7%	44.5%	55	153.2%	1
DG16: 3.05-4.45%	49	21	24	9	3.8%	45.5%	69	140.2%	1
DG17: 4.45-6.35%	76	70	41	1	5.1%	44.4%	184	242.0%	5
DG18: 6.35-8.65%	24	22	36	–	8.4%	44.0%	53	221.8%	1
DG19: 8.65-11.35%	5	2	4	1	9.7%	39.6%	10	193.6%	–
DG20: 11.35-18.65%	7	–	10	7	15.0%	37.4%	15	207.4%	–
DG21: 18.65-100%	7	3	5	–	27.9%	37.2%	16	235.1%	1
In default	92	–	70	–	100.0%	24.3%	266	289.3%	–
Total	49,835	19,314	52,754	2,539	0.3%	42.3%	14,635	29.4%	29
As at 31 December 2013 (CRD III basis)									
DG1: 0.00-0.02%	1,102	222	563	151	0.0%	45.0%	70	6.3%	–
DG2: 0.02-0.03%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG3: 0.03-0.05%	41,119	11,799	39,909	1,652	0.0%	37.4%	4,676	11.4%	5
DG4: 0.05-0.10%	2,106	1,129	2,764	59	0.1%	42.9%	498	23.9%	1
DG5: 0.10-0.15%	2,057	868	2,130	71	0.1%	40.2%	599	29.1%	1
DG6: 0.15-0.20%	220	143	386	27	0.1%	25.8%	85	41.7%	–
DG7: 0.20-0.25%	528	145	428	50	0.2%	43.5%	198	22.6%	1
DG8: 0.25-0.30%	209	50	229	–	0.3%	21.0%	48	23.2%	–
DG9: 0.30-0.40%	291	160	251	10	0.3%	48.2%	189	64.7%	1
DG10: 0.40-0.50%	173	55	193	23	0.4%	37.4%	115	66.8%	–
DG11: 0.50-0.60%	80	53	64	16	0.5%	44.1%	57	72.0%	–
DG12: 0.60-1.20%	118	90	175	8	0.8%	47.2%	93	79.7%	–
DG13: 1.20-1.55%	61	60	75	–	1.2%	45.1%	62	0.0%	–
DG14: 1.55-2.15%	5	5	6	–	1.7%	50.1%	4	0.0%	–
DG15: 2.15-3.05%	14	14	15	1	2.4%	46.6%	18	116.2%	–
DG16: 3.05-4.45%	5	4	3	–	3.4%	46.1%	6	113.7%	–
DG17: 4.45-6.35%	2	2	5	–	4.4%	43.2%	2	0.0%	–
DG18: 6.35-8.65%	26	24	17	–	7.3%	45.6%	50	203.3%	1
DG19: 8.65-11.35%	–	–	15	–	0.0%	0.0%	–	0.0%	–
DG20: 11.35-18.65%	–	–	3	–	0.0%	0.0%	–	0.0%	–
DG21: 18.65-100%	–	–	2	–	0.0%	0.0%	–	0.0%	–
In default	51	–	89	–	100.0%	20.9%	89	0.0%	4
Total	48,167	14,823	47,322	2,068	0.2%	38.0%	6,859	14.0%	14

Table 29 continued

Obligor grade disclosure for Foundation IRB

As at 31 December 2014	Exposure value: Total £m	Exposure value: Of which: arising from counterparty credit risk £m	Average exposure value £m	Undrawn Commitments £m	Average Probability of Default (PD) %	Exposure weighted average LGD %	Risk weighted exposure amount £m	Exposure weighted average risk weight %	Expected Loss £m
DG1: 0.00-0.02%	–	–	–	–	–	–	–	–	–
DG2: 0.02-0.03%	–	–	–	–	–	–	–	–	–
DG3: 0.03-0.05%	766	507	867	327	–	45.0%	103	13.4%	–
DG4: 0.05-0.10%	492	292	293	95	0.1%	45.0%	91	18.5%	–
DG5: 0.10-0.15%	–	–	74	321	0.1%	45.0%	–	–	–
DG6: 0.15-0.20%	85	84	151	1	0.2%	45.0%	44	51.8%	–
DG7: 0.20-0.25%	181	72	193	–	0.2%	45.0%	122	67.4%	–
DG8: 0.25-0.30%	–	–	15	–	–	–	–	–	–
DG9: 0.30-0.40%	169	70	43	6	0.3%	45.0%	130	76.9%	–
DG10: 0.40-0.50%	1	1	14	–	0.4%	45.0%	1	100.0%	–
DG11: 0.50-0.60%	6	–	2	–	0.5%	45.0%	4	66.7%	–
DG12: 0.60-1.20%	172	–	65	2	0.9%	45.0%	114	66.3%	–
DG13: 1.20-1.55%	7	–	130	9	1.4%	45.0%	7	100.0%	–
DG14: 1.55-2.15%	27	3	9	84	1.8%	45.0%	32	118.5%	–
DG15: 2.15-3.05%	83	67	27	–	2.6%	45.0%	91	109.6%	1
DG16: 3.05-4.45%	88	–	24	–	3.8%	45.0%	58	65.9%	–
DG17: 4.45-6.35%	–	–	1	–	–	–	–	–	–
DG18: 6.35-8.65%	–	–	1	–	–	–	–	–	–
DG19: 8.65-11.35%	–	–	2	1	–	–	–	–	–
DG20: 11.35-18.65%	–	–	–	–	–	–	–	–	–
DG21: 18.65-100%	–	–	1	–	–	–	–	–	–
In default	–	–	–	–	–	–	–	–	–
Total	2,077	1,096	1,910	846	0.5%	45.0%	798	38.4%	1
As at 31 December 2013 (CRD III basis)									
DG1: 0.00-0.02%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG2: 0.02-0.03%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG3: 0.03-0.05%	668	417	550	171	0.0%	45.0%	90	13.4%	–
DG4: 0.05-0.10%	186	113	660	78	0.0%	45.0%	51	27.5%	–
DG5: 0.10-0.15%	263	261	235	303	0.0%	45.0%	94	35.7%	–
DG6: 0.15-0.20%	278	59	167	27	0.1%	45.0%	119	42.9%	–
DG7: 0.20-0.25%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG8: 0.25-0.30%	1	–	1	1	0.0%	45.0%	1	55.7%	–
DG9: 0.30-0.40%	–	–	2	–	0.0%	0.0%	–	0.0%	–
DG10: 0.40-0.50%	38	4	17	29	0.1%	45.0%	27	72.0%	–
DG11: 0.50-0.60%	–	–	5	–	0.0%	45.0%	–	76.8%	–
DG12: 0.60-1.20%	2	–	1	–	0.1%	45.0%	2	96.3%	–
DG13: 1.20-1.55%	3	–	1	–	1.1%	45.0%	3	109.1%	–
DG14: 1.55-2.15%	–	–	–	–	1.6%	45.0%	–	113.3%	–
DG15: 2.15-3.05%	7	1	9	–	2.3%	45.0%	9	129.7%	–
DG16: 3.05-4.45%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG17: 4.45-6.35%	–	–	–	1	0.7%	45.0%	1	160.3%	–
DG18: 6.35-8.65%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG19: 8.65-11.35%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG20: 11.35-18.65%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG21: 18.65-100%	–	–	–	–	0.0%	0.0%	–	0.0%	–
In default	–	–	–	–	0.0%	0.0%	–	0.0%	–
Total	1,446	855	1,648	610	0.0%	45.0%	397	27.5%	–

The average risk weight associated with Advanced IRB exposures to financial institutions increased from 14.0% to 29.4%. This is mainly due to the implementation of new regulatory LGD floors.

The Foundation IRB risk weight increased from 27.5% to 38.4% due to the re-rating of African exposures to higher DG bands.

Analysis of credit risk

Table 30: IRB wholesale obligor grade disclosure for corporates

Obligor grade disclosure for Advanced IRB

As at 31 December 2014	Exposure value: Total £m	Exposure value: Of which: arising from counterparty credit risk £m	Average exposure value £m	Undrawn Commitments £m	Average Probability of Default (PD) %	Exposure weighted average LGD %	Risk weighted exposure amount £m	Exposure weighted average risk weight %	Expected Loss £m
DG1: 0.00-0.02%	294	263	1,495	–	–	45.0%	53	18.1%	–
DG2: 0.02-0.03%	–	–	–	–	–	–	–	–	–
DG3: 0.03-0.05%	70,095	33,238	68,889	40,989	0.0%	41.7%	12,960	18.5%	11
DG4: 0.05-0.10%	26,813	7,139	26,027	23,138	0.1%	41.2%	8,252	30.8%	9
DG5: 0.10-0.15%	14,248	4,217	14,706	10,161	0.1%	41.7%	5,632	39.5%	8
DG6: 0.15-0.20%	7,502	1,892	7,441	4,759	0.2%	44.7%	3,485	46.4%	6
DG7: 0.20-0.25%	6,652	2,154	6,369	4,053	0.2%	45.5%	3,473	52.2%	6
DG8: 0.25-0.30%	3,991	824	4,043	2,188	0.3%	44.0%	2,475	62.0%	5
DG9: 0.30-0.40%	5,003	706	5,317	3,569	0.3%	45.3%	3,738	74.7%	7
DG10: 0.40-0.50%	4,407	489	4,349	2,193	0.4%	42.7%	3,062	69.5%	9
DG11: 0.50-0.60%	3,469	306	4,626	1,995	0.5%	40.3%	2,531	73.0%	8
DG12: 0.60-1.20%	10,785	1,143	10,375	6,598	0.9%	38.8%	9,053	83.9%	39
DG13: 1.20-1.55%	2,801	193	2,982	1,752	1.4%	36.1%	2,350	83.9%	14
DG14: 1.55-2.15%	3,423	338	3,711	1,430	1.9%	33.2%	2,946	86.1%	23
DG15: 2.15-3.05%	4,276	356	4,590	2,793	2.6%	32.2%	4,120	96.4%	39
DG16: 3.05-4.45%	2,558	285	3,351	1,487	3.6%	33.4%	2,608	102.0%	34
DG17: 4.45-6.35%	2,839	241	2,335	1,083	5.3%	31.8%	3,013	106.1%	50
DG18: 6.35-8.65%	602	36	1,111	383	7.4%	34.2%	727	120.8%	16
DG19: 8.65-11.35%	251	45	538	90	10.0%	43.7%	452	179.9%	11
DG20: 11.35-18.65%	446	26	490	282	14.8%	23.9%	452	101.3%	15
DG21: 18.65-100%	267	22	450	75	29.7%	36.9%	488	182.7%	28
In default	1,171	140	1,223	329	100.0%	32.7%	2,633	224.8%	174
Total	171,893	54,053	174,418	109,347	1.2%	41.0%	74,502	43.3%	512
As at 31 December 2013 (CRD III basis)									
DG1: 0.00-0.02%	2,121	819	2,050	1,190	0.0%	45.0%	117	5.5%	–
DG2: 0.02-0.03%	–	–	153	–	0.0%	0.0%	–	0.0%	–
DG3: 0.03-0.05%	58,243	21,150	58,750	35,662	0.0%	37.6%	7,938	13.7%	8
DG4: 0.05-0.10%	25,873	6,018	25,773	21,228	0.1%	36.1%	6,130	23.7%	7
DG5: 0.10-0.15%	13,998	3,566	15,221	9,110	0.1%	34.2%	4,229	30.5%	6
DG6: 0.15-0.20%	7,690	1,847	7,937	4,286	0.1%	33.5%	3,188	42.6%	5
DG7: 0.20-0.25%	4,852	652	5,521	3,489	0.2%	36.2%	2,230	40.8%	4
DG8: 0.25-0.30%	3,238	479	3,326	2,360	0.2%	33.0%	1,653	51.7%	4
DG9: 0.30-0.40%	6,575	1,895	6,721	2,922	0.3%	40.4%	3,859	58.4%	11
DG10: 0.40-0.50%	4,488	660	4,584	2,260	0.4%	34.9%	2,786	62.8%	8
DG11: 0.50-0.60%	3,485	592	3,505	1,572	0.5%	36.3%	2,339	68.0%	8
DG12: 0.60-1.20%	10,746	1,989	11,964	4,928	0.7%	35.5%	8,224	78.7%	35
DG13: 1.20-1.55%	3,236	655	3,546	1,232	1.0%	33.5%	3,315	81.8%	22
DG14: 1.55-2.15%	3,754	912	4,859	1,649	1.6%	33.5%	3,123	59.7%	24
DG15: 2.15-3.05%	4,875	784	6,631	1,686	2.2%	27.5%	3,901	86.0%	35
DG16: 3.05-4.45%	3,937	838	3,339	1,423	3.3%	32.9%	4,229	109.4%	49
DG17: 4.45-6.35%	1,666	184	2,079	655	4.7%	34.8%	2,277	118.6%	35
DG18: 6.35-8.65%	1,465	91	1,378	208	7.1%	35.1%	1,885	129.9%	40
DG19: 8.65-11.35%	666	128	1,181	163	9.4%	25.0%	707	109.4%	16
DG20: 11.35-18.65%	429	30	536	119	13.0%	28.3%	572	139.1%	19
DG21: 18.65-100%	436	56	842	36	26.2%	29.8%	721	137.2%	40
In default	1,437	98	1,958	99	79.4%	31.6%	2,404	150.3%	412
Total	163,210	43,443	171,854	96,277	1.3%	35.9%	65,827	39.4%	788

Table 30 continued

Obligor grade disclosure for Foundation IRB

As at 31 December 2014	Exposure value: Total £m	Exposure value: Of which: arising from counterparty credit risk £m	Average exposure value £m	Undrawn Commitments £m	Average Probability of Default (PD) %	Exposure weighted average LGD %	Risk weighted exposure amount £m	Exposure weighted average risk weight %	Expected Loss £m
DG1: 0.00-0.02%	–	–	17	–	–	–	–	–	–
DG2: 0.02-0.03%	–	–	6	–	–	–	–	–	–
DG3: 0.03-0.05%	1,223	107	1,133	459	0.0%	44.4%	237	19.4%	1
DG4: 0.05-0.10%	945	14	960	1,093	0.1%	44.9%	246	26.0%	–
DG5: 0.10-0.15%	1,079	27	826	847	0.1%	42.6%	385	35.7%	1
DG6: 0.15-0.20%	1,587	42	1,859	403	0.2%	42.2%	641	40.4%	1
DG7: 0.20-0.25%	1,033	98	829	453	0.2%	40.8%	436	42.2%	1
DG8: 0.25-0.30%	727	47	637	402	0.3%	44.7%	377	51.9%	1
DG9: 0.30-0.40%	784	8	979	212	0.3%	44.5%	446	56.9%	1
DG10: 0.40-0.50%	689	21	605	279	0.5%	42.5%	427	62.0%	1
DG11: 0.50-0.60%	768	8	650	650	0.5%	44.3%	561	73.0%	2
DG12: 0.60-1.20%	1,954	19	1,702	575	0.9%	43.9%	1,596	81.7%	12
DG13: 1.20-1.55%	988	10	1,600	757	1.4%	44.1%	985	99.7%	6
DG14: 1.55-2.15%	596	18	582	221	1.9%	43.4%	629	105.5%	5
DG15: 2.15-3.05%	1,035	4	981	479	2.6%	43.4%	1,176	113.6%	12
DG16: 3.05-4.45%	414	5	376	112	3.7%	43.4%	492	118.8%	7
DG17: 4.45-6.35%	367	3	279	175	5.3%	43.7%	498	135.7%	9
DG18: 6.35-8.65%	154	–	171	166	7.4%	42.8%	234	151.9%	5
DG19: 8.65-11.35%	44	–	40	13	10.0%	44.4%	75	170.5%	2
DG20: 11.35-18.65%	178	6	126	69	15.3%	43.5%	378	212.4%	12
DG21: 18.65-100%	67	–	48	61	33.7%	43.8%	156	232.8%	11
In default	324	–	323	130	100.0%	37.1%	985	304.0%	107
Total	14,956	437	14,729	7,556	3.4%	43.3%	10,960	73.3%	197
As at 31 December 2013 (CRD III basis)									
DG1: 0.00-0.02%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG2: 0.02-0.03%	–	–	–	–	0.0%	0.0%	–	0.0%	–
DG3: 0.03-0.05%	1,084	114	1,140	635	0.0%	44.4%	190	14.2%	–
DG4: 0.05-0.10%	1,121	53	1,171	596	0.0%	44.0%	281	23.8%	–
DG5: 0.10-0.15%	603	13	1,140	413	0.0%	41.2%	219	29.5%	–
DG6: 0.15-0.20%	2,328	30	1,871	861	0.0%	44.4%	997	39.0%	2
DG7: 0.20-0.25%	697	27	583	387	0.0%	44.0%	326	82.8%	1
DG8: 0.25-0.30%	960	39	1,034	361	0.1%	44.6%	515	51.4%	1
DG9: 0.30-0.40%	889	43	969	429	0.1%	43.4%	495	57.7%	1
DG10: 0.40-0.50%	917	10	865	338	0.1%	44.1%	604	62.1%	2
DG11: 0.50-0.60%	620	19	795	532	0.1%	44.5%	456	68.6%	1
DG12: 0.60-1.20%	1,746	15	2,150	714	0.1%	43.7%	1,574	76.6%	8
DG13: 1.20-1.55%	1,297	14	1,418	619	0.5%	44.2%	1,341	155.1%	8
DG14: 1.55-2.15%	639	12	654	273	0.3%	44.4%	703	247.8%	5
DG15: 2.15-3.05%	1,011	56	1,072	397	0.5%	42.4%	1,148	84.8%	10
DG16: 3.05-4.45%	402	21	433	123	0.4%	43.9%	516	109.1%	6
DG17: 4.45-6.35%	235	4	273	147	0.7%	43.4%	335	270.9%	5
DG18: 6.35-8.65%	77	–	108	124	0.4%	42.3%	114	124.5%	2
DG19: 8.65-11.35%	29	–	31	19	0.5%	43.0%	49	90.0%	1
DG20: 11.35-18.65%	50	–	84	42	1.7%	40.4%	93	136.7%	3
DG21: 18.65-100%	34	1	57	11	2.2%	42.2%	77	591.4%	4
In default	380	–	483	155	22.1%	36.6%	834	283.1%	132
Total	15,119	471	16,331	7,176	0.7%	43.7%	10,867	82.1%	192

The average risk weight associated with Advanced IRB exposures to corporates decreased from 39.4% to 43.3%. This is mainly due to changes in portfolio composition following the migration of large exposures to lower grades, the inclusion of counterparty credit risk exposures under advanced approaches, and the implementation of regulatory LGD floors on parts of the portfolio.

The Foundation IRB risk weight decreased from 82.1% to 73.3% mainly due to changes in risk weights in DG bands 13 and 14.

Table 31: Corporate exposures subject to the slotting approach

Slotting, also known as specialised lending, is an approach that is applied to financing of individual projects where the repayment is highly dependent on the performance of the underlying pool or collateral. It uses a standard set of rules to be used in the calculation of RWAs, based upon an assessment of factors such as the financial strength of the counterparty. The requirements for the application of the Slotting approach are detailed in CRR article 153.

Obligor Grade	Remaining Maturity <2.5 years		Remaining Maturity >2.5 years	
	EAD post-CRM	Risk Weighted Assets	EAD post-CRM	Risk Weighted Assets
As at 31 December 2014				
Strong	2,343	1,172	5,101	3,571
Good	1,728	1,210	1,731	1,558
Satisfactory	558	641	490	563
Weak	421	1,054	429	1,073
Default[a]	390	–	291	–
Total	5,440	4,077	8,042	6,765
As at 31 December 2013 (CRD III basis)				
Strong	2,246	1,123	3,707	1,854
Good	2,128	1,490	1,431	1,016
Satisfactory	1,174	1,350	718	826
Weak	346	866	463	1,158
Default[a]	708	–	147	–
Total	6,602	4,829	6,466	4,854

Exposures subject to the slotting approach increased RWAs by £1.2bn, driven by asset growth and application of new treatment for CRD IV rules.

Note
a Exposures in default do not generate risk weighted assets as they are already reflected in deductions to capital resources.

Table 32: IRB retail obligor grade disclosure for SME

Obligor grade disclosure for Advanced IRB

As at 31 December 2014	Exposure value £m	Average exposure value £m	Undrawn Commitments £m	Average Probability of Default (PD) %	Exposure weighted average LGD %	Risk weighted exposure amount £m	Exposure weighted average risk weight %	Expected Loss £m
DG1: 0.00-0.02%	–	–	–	–	–	–	–	–
DG2: 0.02-0.03%	–	–	–	–	–	–	–	–
DG3: 0.03-0.05%	1,005	980	269	0.0%	27.9%	106	10.5%	2
DG4: 0.05-0.10%	324	308	49	0.1%	24.7%	41	12.7%	–
DG5: 0.10-0.15%	271	251	70	0.1%	31.7%	43	15.9%	1
DG6: 0.15-0.20%	271	255	86	0.2%	35.5%	51	18.8%	1
DG7: 0.20-0.25%	203	205	59	0.2%	36.9%	44	21.7%	–
DG8: 0.25-0.30%	169	172	46	0.3%	36.2%	39	23.1%	–
DG9: 0.30-0.40%	354	363	114	0.3%	39.5%	91	25.7%	1
DG10: 0.40-0.50%	316	324	91	0.4%	38.6%	84	26.6%	1
DG11: 0.50-0.60%	263	270	79	0.5%	38.6%	84	31.9%	1
DG12: 0.60-1.20%	1,239	1,251	313	0.9%	39.0%	460	37.1%	6
DG13: 1.20-1.55%	572	579	155	1.4%	46.0%	251	43.9%	4
DG14: 1.55-2.15%	646	652	137	1.9%	38.4%	297	46.0%	5
DG15: 2.15-3.05%	789	818	137	2.6%	43.9%	430	54.5%	10
DG16: 3.05-4.45%	707	725	98	3.7%	37.3%	379	53.6%	10
DG17: 4.45-6.35%	468	416	65	5.4%	41.8%	276	59.0%	11
DG18: 6.35-8.65%	243	303	39	7.5%	45.1%	166	68.3%	9
DG19: 8.65-11.35%	133	143	13	10.0%	45.5%	286	215.0%	6
DG20: 11.35-18.65%	149	157	16	15.0%	49.3%	136	91.3%	11
DG21: 18.65-100%	221	221	18	30.2%	42.5%	224	101.4%	29
In default	492	593	9	100.0%	27.9%	715	145.3%	110
Total	8,835	8,984	1,863	8.2%	37.5%	4,203	47.6%	218
As at 31 December 2013 (CRD III basis)								
DG1: 0.00-0.02%	–	–	–	0.0%	0.0%	–	0.0%	–
DG2: 0.02-0.03%	–	–	–	0.0%	0.0%	–	0.0%	–
DG3: 0.03-0.05%	901	717	266	0.0%	30.6%	76	8.4%	3
DG4: 0.05-0.10%	328	337	66	0.1%	26.4%	33	10.1%	1
DG5: 0.10-0.15%	269	256	71	0.1%	33.5%	40	14.7%	1
DG6: 0.15-0.20%	238	235	74	0.2%	37.1%	46	19.1%	1
DG7: 0.20-0.25%	200	221	58	0.2%	36.0%	44	21.8%	1
DG8: 0.25-0.30%	190	192	47	0.3%	33.9%	43	22.4%	1
DG9: 0.30-0.40%	382	381	116	0.3%	39.0%	99	25.8%	1
DG10: 0.40-0.50%	337	375	92	0.4%	39.3%	95	28.3%	1
DG11: 0.50-0.60%	273	284	77	0.5%	40.5%	100	36.6%	1
DG12: 0.60-1.20%	1,268	1,384	310	0.9%	40.3%	542	42.9%	7
DG13: 1.20-1.55%	579	602	157	1.4%	45.9%	294	50.9%	5
DG14: 1.55-2.15%	670	709	139	1.9%	40.7%	381	57.0%	6
DG15: 2.15-3.05%	859	845	221	2.6%	43.7%	531	61.7%	11
DG16: 3.05-4.45%	720	752	95	3.7%	39.4%	457	63.5%	12
DG17: 4.45-6.35%	420	433	57	5.4%	44.0%	303	72.2%	11
DG18: 6.35-8.65%	386	295	58	7.5%	42.4%	282	73.0%	13
DG19: 8.65-11.35%	159	280	18	10.0%	47.2%	140	88.2%	8
DG20: 11.35-18.65%	199	211	22	14.9%	46.5%	203	101.9%	14
DG21: 18.65-100%	274	257	19	29.8%	42.7%	331	121.1%	35
In default	584	647	10	100.0%	23.0%	1,783	305.4%	140
Total	9,236	9,413	1,973	9.2%	38.4%	5,823	63.1%	273

The average risk weight associated with retail SME exposures decreased to 47.6% to 63.1%. This reflects migration to better default grades reflecting improved risk performance in PCB, and the implementation of regulatory measures under CRD IV to support SME access to finance.

Table 33: IRB retail obligor grade disclosure for secured retail

Obligor grade disclosure for Advanced IRB

As at 31 December 2014	Exposure value £m	Average exposure value £m	Undrawn Commitments £m	Average Probability of Default (PD) %	Exposure weighted average LGD %	Risk weighted exposure amount £m	Exposure weighted average risk weight %	Expected Loss £m
DG1: 0.00-0.02%	–	1	–	–	–	–	–	–
DG2: 0.02-0.03%	–	–	–	–	–	–	–	–
DG3: 0.03-0.05%	5,585	5,861	922	0.0%	17.3%	107	1.9%	–
DG4: 0.05-0.10%	5,905	6,133	365	0.1%	20.2%	342	5.8%	1
DG5: 0.10-0.15%	10,124	10,506	548	0.1%	22.0%	1,042	10.3%	4
DG6: 0.15-0.20%	5,067	5,289	536	0.2%	21.0%	584	11.5%	2
DG7: 0.20-0.25%	2,626	2,729	688	0.2%	16.9%	244	9.3%	1
DG8: 0.25-0.30%	2,511	2,563	784	0.3%	14.9%	244	9.7%	1
DG9: 0.30-0.40%	11,691	13,748	2,252	0.4%	10.5%	804	6.9%	4
DG10: 0.40-0.50%	25,991	23,521	2,840	0.4%	10.9%	2,148	8.3%	13
DG11: 0.50-0.60%	18,405	18,788	2,406	0.6%	11.2%	1,819	9.9%	11
DG12: 0.60-1.20%	56,843	55,562	5,240	0.8%	12.2%	8,420	14.8%	58
DG13: 1.20-1.55%	6,673	6,691	321	1.4%	16.2%	1,773	26.6%	15
DG14: 1.55-2.15%	4,825	4,606	286	1.9%	15.6%	1,494	31.0%	14
DG15: 2.15-3.05%	5,052	4,548	433	2.6%	18.1%	2,134	42.2%	22
DG16: 3.05-4.45%	2,065	2,275	126	3.8%	16.8%	1,059	51.3%	13
DG17: 4.45-6.35%	2,048	2,040	133	5.2%	16.2%	1,179	57.6%	17
DG18: 6.35-8.65%	941	867	35	7.6%	15.1%	614	65.2%	11
DG19: 8.65-11.35%	283	299	5	9.9%	13.5%	197	69.6%	4
DG20: 11.35-18.65%	504	569	2	14.5%	18.3%	541	107.3%	14
DG21: 18.65-100%	1,545	1,795	25	44.1%	18.7%	1,623	105.0%	135
In default	3,816	4,060	66	100.0%	20.6%	4,527	118.6%	556
Total	172,500	172,446	18,013	3.4%	13.9%	30,895	17.9%	896
As at 31 December 2013 (CRD III basis)								
DG1: 0.00-0.02%	–	–	–	0.0%	0.0%	–	0.0%	–
DG2: 0.02-0.03%	–	–	–	0.0%	0.0%	–	0.0%	–
DG3: 0.03-0.05%	7,563	7,656	78	0.0%	19.3%	198	2.6%	1
DG4: 0.05-0.10%	7,485	7,648	339	0.1%	22.0%	457	6.1%	2
DG5: 0.10-0.15%	10,218	9,813	382	0.1%	22.6%	1,059	10.4%	4
DG6: 0.15-0.20%	5,923	4,640	345	0.2%	21.9%	702	11.9%	3
DG7: 0.20-0.25%	2,638	4,050	515	0.2%	14.0%	255	9.7%	1
DG8: 0.25-0.30%	2,882	2,808	714	0.3%	14.0%	291	10.1%	1
DG9: 0.30-0.40%	18,911	18,539	2,426	0.4%	9.4%	1,232	6.5%	7
DG10: 0.40-0.50%	17,670	17,725	1,014	0.5%	12.2%	1,698	9.6%	10
DG11: 0.50-0.60%	18,083	17,791	1,565	0.5%	10.4%	1,706	9.4%	10
DG12: 0.60-1.20%	53,412	52,692	3,307	0.8%	12.4%	7,747	14.5%	53
DG13: 1.20-1.55%	6,185	6,727	215	1.4%	15.3%	1,599	25.9%	13
DG14: 1.55-2.15%	4,390	4,675	176	1.8%	14.6%	1,284	29.2%	11
DG15: 2.15-3.05%	4,300	4,209	102	2.5%	17.9%	1,863	43.3%	19
DG16: 3.05-4.45%	2,141	2,374	68	3.5%	15.7%	1,315	61.4%	19
DG17: 4.45-6.35%	2,415	2,556	92	5.1%	18.4%	1,585	65.7%	23
DG18: 6.35-8.65%	768	985	10	7.5%	16.3%	560	72.9%	10
DG19: 8.65-11.35%	320	524	5	9.9%	14.0%	246	76.6%	5
DG20: 11.35-18.65%	643	744	1	14.7%	18.9%	729	113.4%	19
DG21: 18.65-100%	1,967	2,067	15	44.7%	19.5%	2,165	110.1%	179
In default	4,443	3,611	72	100.0%	19.5%	4,712	106.1%	644
Total	172,357	171,834	11,441	3.9%	14.3%	31,403	18.2%	1,034

The average risk weight associated with retail mortgages remained broadly stable at 17.9% (2013: 18.2%). Some migration of exposures towards higher default grades occurred mainly due to new CRD IV definitions of default.

Table 34: IRB retail obligor grade disclosure for revolving retail

Obligor grade disclosure for Advanced IRB

As at 31 December 2014	Exposure value £m	Average exposure value £m	Undrawn Commitments £m	Average Probability of Default (PD) %	Exposure weighted average LGD %	Risk weighted exposure amount £m	Exposure weighted average risk weight %	Expected Loss £m
DG1: 0.00-0.02%	–	–	–	–	–	–	–	–
DG2: 0.02-0.03%	–	–	–	–	–	–	–	–
DG3: 0.03-0.05%	6,316	6,092	8,077	0.0%	79.4%	129	2.0%	2
DG4: 0.05-0.10%	3,779	3,667	7,611	0.1%	78.5%	147	3.9%	2
DG5: 0.10-0.15%	2,932	2,864	5,862	0.1%	77.6%	175	6.0%	3
DG6: 0.15-0.20%	1,970	1,911	4,110	0.2%	77.4%	153	7.8%	3
DG7: 0.20-0.25%	1,340	1,307	2,750	0.2%	77.9%	131	9.8%	2
DG8: 0.25-0.30%	1,183	1,156	2,429	0.3%	77.5%	135	11.4%	3
DG9: 0.30-0.40%	1,834	1,823	3,410	0.3%	77.5%	253	13.8%	5
DG10: 0.40-0.50%	1,349	1,333	2,301	0.4%	77.3%	228	16.9%	5
DG11: 0.50-0.60%	1,171	1,147	1,857	0.5%	77.1%	232	19.8%	5
DG12: 0.60-1.20%	4,904	4,857	6,112	0.9%	77.4%	1,407	28.7%	36
DG13: 1.20-1.55%	1,874	1,845	1,688	1.4%	78.0%	767	40.9%	22
DG14: 1.55-2.15%	2,222	2,192	1,708	1.8%	77.6%	1,121	50.5%	34
DG15: 2.15-3.05%	2,288	2,211	1,420	2.5%	76.9%	1,450	63.4%	48
DG16: 3.05-4.45%	3,026	3,180	1,507	3.8%	75.6%	2,464	81.4%	89
DG17: 4.45-6.35%	2,100	1,906	838	5.2%	75.5%	2,124	101.1%	85
DG18: 6.35-8.65%	1,306	962	279	7.4%	74.9%	1,624	124.3%	74
DG19: 8.65-11.35%	701	526	112	9.9%	74.7%	1,032	147.2%	53
DG20: 11.35-18.65%	869	649	111	14.2%	74.4%	1,542	177.4%	94
DG21: 18.65-100%	714	542	60	36.0%	75.4%	1,561	218.6%	205
In default	2,075	1,602	689	100.0%	74.5%	3,001	144.6%	1,349
Total	43,953	41,771	52,931	6.9%	77.3%	19,676	44.8%	2,119
As at 31 December 2013 (CRD III basis)								
DG1: 0.00-0.02%	–	–	–	0.0%	0.0%	–	0.0%	–
DG2: 0.02-0.03%	–	–	–	0.0%	0.0%	–	0.0%	–
DG3: 0.03-0.05%	7,726	7,320	14,290	0.0%	77.4%	188	2.4%	3
DG4: 0.05-0.10%	3,533	3,372	6,888	0.1%	79.0%	193	5.5%	3
DG5: 0.10-0.15%	2,423	2,335	4,029	0.1%	80.0%	198	8.2%	3
DG6: 0.15-0.20%	1,794	1,807	2,944	0.2%	81.0%	208	11.6%	4
DG7: 0.20-0.25%	1,340	1,283	2,086	0.2%	82.6%	203	15.1%	4
DG8: 0.25-0.30%	1,037	1,061	1,547	0.3%	81.0%	180	17.3%	4
DG9: 0.30-0.40%	1,534	1,525	2,142	0.3%	80.3%	311	20.3%	7
DG10: 0.40-0.50%	1,316	1,196	1,747	0.4%	80.6%	338	25.7%	8
DG11: 0.50-0.60%	1,000	979	1,203	0.6%	80.8%	301	30.0%	7
DG12: 0.60-1.20%	3,941	4,183	3,685	0.9%	81.4%	1,658	42.1%	43
DG13: 1.20-1.55%	1,760	1,510	1,169	1.4%	81.5%	1,057	60.1%	30
DG14: 1.55-2.15%	1,761	1,657	879	1.8%	86.1%	1,396	79.3%	44
DG15: 2.15-3.05%	1,561	1,501	573	2.5%	87.2%	1,636	104.8%	57
DG16: 3.05-4.45%	2,041	1,834	970	3.9%	83.1%	2,410	118.1%	91
DG17: 4.45-6.35%	838	1,083	181	5.3%	88.9%	1,445	172.3%	62
DG18: 6.35-8.65%	498	495	79	7.4%	89.8%	1,068	214.6%	51
DG19: 8.65-11.35%	269	277	32	9.8%	89.5%	678	252.6%	36
DG20: 11.35-18.65%	242	258	23	15.2%	88.3%	740	305.6%	50
DG21: 18.65-100%	404	390	27	40.6%	89.2%	1,461	361.9%	241
In default	1,671	1,786	367	100.0%	62.4%	1,018	60.9%	965
Total	36,689	35,852	44,861	6.1%	80.3%	16,687	45.5%	1,713

The average risk weight associated with qualifying revolving retail exposures, mainly comprising credit cards and overdrafts, remained broadly stable at 44.8% (2013: 45.5%). Exposure at default increased 19.8% to £44.0bn mainly driven by increased balance sheet size (including migration of certain UK books to the IRB approach), and the application of new methodology in the exposure model in order to meet changes in regulatory rules. Average PD increased to 6.9% (2013: 6.1%) reflecting an updated definition of default in line with CRD IV.

Table 35: IRB retail obligor grade disclosure for other retail exposures

Obligor grade disclosure for Advanced IRB

As at 31 December 2014	Exposure value £m	Average exposure value £m	Undrawn Commitments £m	Average Probability of Default (PD) %	Exposure weighted average LGD %	Risk weighted exposure amount £m	Exposure weighted average risk weight %	Expected Loss £m
DG1: 0.00-0.02%	–	–	–	–	–	–	–	–
DG2: 0.02-0.03%	–	–	–	–	–	–	–	–
DG3: 0.03-0.05%	51	42	2	0.0%	66.5%	4	7.8%	–
DG4: 0.05-0.10%	46	47	–	0.1%	38.3%	4	8.7%	–
DG5: 0.10-0.15%	84	86	–	0.1%	54.0%	13	15.5%	–
DG6: 0.15-0.20%	15	26	–	0.2%	80.6%	5	33.3%	–
DG7: 0.20-0.25%	13	28	–	0.2%	88.1%	5	38.5%	–
DG8: 0.25-0.30%	34	51	–	0.3%	79.9%	14	41.2%	–
DG9: 0.30-0.40%	105	139	–	0.3%	82.1%	52	49.5%	–
DG10: 0.40-0.50%	270	297	–	0.5%	54.6%	107	39.6%	1
DG11: 0.50-0.60%	195	218	–	0.5%	75.4%	119	61.0%	1
DG12: 0.60-1.20%	1,348	1,379	43	0.9%	77.7%	1,103	81.8%	11
DG13: 1.20-1.55%	730	688	1	1.4%	77.4%	697	95.5%	9
DG14: 1.55-2.15%	1,299	1,172	–	1.9%	70.6%	1,238	95.3%	19
DG15: 2.15-3.05%	1,596	1,595	–	2.5%	65.1%	1,496	93.7%	28
DG16: 3.05-4.45%	1,111	991	4	3.7%	71.0%	1,329	119.6%	38
DG17: 4.45-6.35%	542	494	–	5.3%	73.1%	629	116.1%	22
DG18: 6.35-8.65%	349	290	–	7.7%	61.3%	358	102.6%	17
DG19: 8.65-11.35%	119	95	–	9.7%	67.4%	143	120.2%	8
DG20: 11.35-18.65%	305	249	–	15.3%	59.4%	382	125.2%	28
DG21: 18.65-100%	218	155	–	40.5%	67.2%	349	160.1%	66
In default	623	544	–	100.0%	76.0%	567	91.0%	437
Total	9,053	8,585	50	10.5%	70.4%	8,614	95.2%	685
As at 31 December 2013 (CRD III basis)								
DG1: 0.00-0.02%	–	–	–	0.0%	0.0%	–	0.0%	–
DG2: 0.02-0.03%	–	–	–	0.0%	0.0%	–	0.0%	–
DG3: 0.03-0.05%	41	45	2	0.0%	62.2%	3	7.2%	–
DG4: 0.05-0.10%	36	37	–	0.1%	47.9%	4	11.3%	–
DG5: 0.10-0.15%	118	116	–	0.1%	54.8%	19	16.1%	–
DG6: 0.15-0.20%	36	31	–	0.2%	84.8%	12	33.3%	–
DG7: 0.20-0.25%	40	33	1	0.2%	87.8%	16	40.8%	–
DG8: 0.25-0.30%	65	60	–	0.3%	81.2%	28	43.1%	–
DG9: 0.30-0.40%	168	163	1	0.3%	82.5%	84	50.3%	–
DG10: 0.40-0.50%	323	333	–	0.5%	60.1%	140	43.4%	1
DG11: 0.50-0.60%	250	258	–	0.5%	74.0%	148	59.2%	1
DG12: 0.60-1.20%	1,306	1,424	17	0.9%	78.3%	1,053	80.7%	9
DG13: 1.20-1.55%	692	691	1	1.4%	72.3%	606	87.6%	7
DG14: 1.55-2.15%	1,053	1,112	–	1.8%	68.5%	961	91.1%	13
DG15: 2.15-3.05%	1,539	1,579	1	2.5%	59.0%	1,304	84.7%	23
DG16: 3.05-4.45%	943	894	4	3.6%	70.4%	1,149	121.8%	26
DG17: 4.45-6.35%	478	492	–	5.3%	70.8%	534	111.6%	18
DG18: 6.35-8.65%	308	335	27	7.6%	66.2%	337	109.4%	15
DG19: 8.65-11.35%	148	157	–	9.6%	68.7%	178	121.0%	10
DG20: 11.35-18.65%	349	383	–	15.2%	61.3%	447	128.2%	32
DG21: 18.65-100%	224	251	–	43.2%	77.5%	405	180.8%	79
In default	920	990	–	100.0%	80.3%	709	77.0%	699
Total	9,037	9,384	54	13.8%	70.0%	8,137	90.0%	933

The risk weight associated with other retail exposures, primarily comprised of unsecured personal loans, increased from 90.0% to 95.2%, driven by increased small business loans mainly reflected in DG 13 to 17.

IFRS Impairment

The following tables are presented using the IFRS consolidation rather than the regulatory consolidation basis. See pages 116-117 for background on impairment, and page 9 explaining the scope of regulatory consolidation.

This table shows total loans and advances to customers and banks, past due balances and impaired loan balances, split by exposure type.

Table 36: Analysis of impaired and past due exposures and allowance for impairment by exposure type

	Neither Past due nor Impaired £m	Past Due but not Impaired £m	Impaired Loans		Total £m	Allowance for Impairment £m
			Individually £m	Collectively £m		
As at 31 December 2014						
Traded loans	**2,693**	**–**	**–**	**–**	**2,693**	**–**
Financial assets designated at fair value	**19,522**	**676**	**–**	**–**	**20,198**	**–**
Loans and advances to banks	**41,241**	**870**	**–**	**–**	**42,111**	**–**
Home Loans	**158,313**	**434**	**455**	**8,434**	**167,636**	**546**
Credit card receivables	**34,236**	**27**	**306**	**2,929**	**37,498**	**1,918**
Other personal lending	**26,416**	**411**	**456**	**1,851**	**29,134**	**1,372**
Wholesale and Corporate loans and advances	**181,829**	**8,415**	**2,679**	**511**	**193,434**	**1,564**
Finance lease receivables	**5,270**	**2**	**38**	**210**	**5,520**	**55**
Total	**469,520**	**10,835**	**3,934**	**13,935**	**498,224**	**5,455**
As at 31 December 2013						
Traded loans	1,647	–	–	–	1,647	–
Financial assets designated at fair value	18,348	347	–	–	18,695	–
Loans and advances to banks	38,483	931	18	–	39,432	10
Home Loans	168,505	187	510	11,100	180,302	788
Credit card receivables	29,539	2	239	3,342	33,122	1,529
Other personal lending	30,596	305	1,194	2,930	35,025	2,065
Wholesale and Corporate loans and advances	177,104	4,649	3,874	1,581	187,208	2,857
Finance lease receivables	5,444	14	115	255	5,828	9
Total	**469,666**	**6,435**	**5,950**	**19,208**	**501,259**	**7,258**

- Past due but not impaired increased by £4.4bn to £10.8bn primarily due to an increase in past due wholesale and corporate loans within the Investment Bank
- Individually impaired loans decreased £2.0bn to £3.9bn primarily due to the transfer of impaired loans in the Spanish business to 'held for sale'
- Collectively impaired loans decreased £5.3bn to £13.9bn primarily due to a decrease in impairment against UK home loans and the transfer of impaired loans in the Spanish business to 'held for sale'.

Analysis of credit risk

Table 37: Geographic analysis of impaired and past due exposures and allowance for impairment

This table shows past due and impaired loans and advances to customers and banks, split by geographic location of the counterparty.

	Past Due but not Impaired £m	Impaired Loans Individually £m	Impaired Loans Collectively £m	Allowance for Impairment £m
As at 31 December 2014				
UK	4,750	1,534	9,806	2,653
Europe	1,503	1,341	1,183	1,219
Americas	3,863	312	481	499
Africa and Middle East	444	676	2,459	1,001
Asia	275	71	6	83
Total	10,835	3,934	13,935	5,455
As at 31 December 2013				
UK	2,030	1,554	12,130	2,980
Europe	1,213	2,989	3,466	2,486
Americas	2,634	227	353	654
Africa and Middle East	280	1,087	3,257	1,079
Asia	278	93	2	59
Total	6,435	5,950	19,208	7,258

Collectively impaired loans

- UK decreased by £2.3bn to £9.8bn, primarily driven by a decrease in collective impairment against UK home loans business
- Europe decreased by £2.3bn to £1.2bn, primarily as a result of the transfer to held for sale of impaired loans in the Spanish businesses
- Africa and Middle East decreased by £0.8bn to £2.5bn, mainly in home loans

Individually impaired loans

- Europe decreased by £1.7bn to £1.3bn, primarily as a result of the transfer to held for sale of impaired loans in the Spanish businesses

Past Due but not Impaired

- Increase is mainly within the UK and Americas for wholesale and corporate lending within the Investment Bank

For details surrounding the movements in the impairment allowance please see below.

Table 38: Analysis of movement on impairment and amounts taken directly to profit and loss

This table shows the movement in the impairment allowance between 2013 and 2014 year-end. Please refer to pages 116 and 117 of this document and Note 7 of the 2014 Annual Report for further information on impairment.

Impairment movement

	Allowance for Impairment Year Ended 31 December 2014 £m	Allowance for Impairment Year Ended 31 December 2013 £m
Starting period	7,258	7,799
Acquisitions and disposals	13	(5)
Exchange and other adjustments	(1,047)	(260)
Unwind of discount	(153)	(179)
Amounts written off	(3,037)	(3,343)
Recoveries	221	201
Amounts charged against profit (see below)	2,200	3,045
Ending period	5,455	7,258

Amounts charged against profit

	P&L Impact £m	£m
New and increased impairment allowances	3,230	3,929
Releases	(809)	(683)
Recoveries	(221)	(201)
Total Impairment on loans and advances	2,200	3,045

Loan impairment decreased by £1.8bn to £5.5bn, driven by the reclassicification of BNC loans to held for sale.

Regulatory adjustments to statutory Impairment

The IFRS impairment allowance is adjusted to reflect a regulatory view, which is used to calculate the provision misalignment adjustment to regulatory capital. The primary differences are detailed below:

- Scope of consolidation – adjustments driven by differences between the IFRS and regulatory consolidation, as highlighted on page 10. These include, but are not exclusive to, impairments relating to securitisation vehicles and associates
- Other value adjustments – adjustments over and above specific or general provisions, to correct asymmetry within the provision misalignment adjustment to regulatory capital or certain credit risk calculations. Examples include adjustments for fair value loans
- Securitisation positions – expected loss is not calculated for securitisation positions. As such, impairments associated with these positions are removed from the regulatory view

Table 39: Regulatory adjustments to statutory Impairment

As at 31 December 2014	£m
IFRS allowance for impairment	**5,455**
Regulatory adjustments	
Scope of consolidation	**333**
AFS impairments	**79**
Other regulatory adjustments	**895**
Regulatory impairment allowance	**6,762**

The tables within this section are based on the regulatory consolidation.

Table 40: Analysis of regulatory impairment allowance by regulatory exposure class

Regulatory impairment allowance	Impairment As at 31 December 2014 £m	Impairment As at 31 December 2013 (CRD III basis) £m
Standardised approach		
Central governments or central banks	–	–
Regional governments or local authorities	–	–
Public sector entities	1	–
Multilateral development banks	–	–
International organisations	–	–
Institutions	1	9
Corporates	350	657
Retail	357	492
Secured by mortgages	–	114
Exposures in default	2,524	2,900
Items associated with high risk	155	150
Covered bonds	–	–
Securitisation positions	–	–
Collective investment undertakings	–	–
Equity positions	–	–
Other items	–	36
Total Standardised approach credit exposure	**3,388**	**4,358**
Foundation IRB approach		
Central governments or central banks	–	–
Institutions	–	–
Corporates	139	175
Total Foundation IRB approach credit exposure	**139**	**175**
Advanced IRB approach		
Central governments or central banks	–	–
Institutions	3	10
Corporates	326	1,032
Retail	–	–
– Small and medium enterprises (SME)	198	13
– Secured by real estate collateral	637	705
– Qualifying revolving retail	1,506	989
– Other retail	565	1,001
Equity	–	2
Securitisation positions	–	–
Non-credit obligation assets	–	–
Total Advanced IRB approach credit exposure	**3,235**	**3,752**
Total credit exposures	**6,762**	**8,285**

Impairment allowance under the Standardised approach decreased by £1.0bn to £3.4bn. This was driven by:

- Corporate exposures decreased by £0.3bn to £0.4bn, driven by impairment releases within PCB, primarily within the Spanish corporate portfolio
- Exposures in default decreased by £0.4bn to £2.5bn, primarily due to run off in BNC portfolios

Impairment allowance under Advanced IRB decreased by £0.5bn to £3.2bn. This was driven by:

- Corporate exposures decreased by £0.7bn to £0.3bn, primarily driven by disposals within the Investment Bank and PCB
- Retail exposures increased by £0.2bn to £2.9bn, primarily driven by new model implementation from Standardised to Advanced approach within Barclaycard.

Table 41: Impairment charges, other value adjustments and individual impairment charges for IRB exposures
This table represents a regulatory view of impairment charged directly against profits during the period, for portfolios that are subject to IRB calculations and individually assessed. The impact of other value adjustments are provided on the same basis. These charges are included within the net trading income and net investment income within the financial statements.

The total impairment charged against profits will not reconcile directly to table 38 owing to differences in regulatory scope, as highlighted in table 1. Furthermore, table 41 does not analyse portfolios subject to standardised calculations or IRB portfolios that are assessed collectively.

IRB Exposure Class	As at 31 December 2014 £m	As at 31 December 2013 (CRD III basis) £m
Central governments or central banks	–	–
Institutions	–	–
Corporates	89	224
Retail	–	–
– Retail SME	4	5
– Retail exposures secured by real estate collateral	43	55
– Qualifying revolving retail	–	–
– Other retail	–	–
Equity	–	–
Securitisation positions	–	–
Non-credit obligation assets	–	–
Total	**136**	**284**

Individual impairment charges for portfolios subject to IRB calculations decreased by £0.2bn, primarily due to a decrease in impairment charges for corporate exposures. This was driven by reduced charges within PCB.

Loss analysis – regulatory expected loss versus actual losses

The following table compares Barclays expected loss (EL) measure against the regulatory view of actual loss for those portfolios where credit risk is calculated using the IRB approach.

As expected loss best estimate (ELBE) represents a charge for assets already in default, it has been separately disclosed from total EL. This facilitates comparison of actual loss during the period to the expectation of future loss or EL, as derived by our IRB models in the prior period.

The following should be considered when comparing EL and actual loss metrics:

- The purpose of EL is not to represent a prediction of future impairment charges
- Whilst the impairment charge and the EL measure respond to similar drivers, they are not directly comparable
- The EL does not reflect growth of portfolios or changes in the mix of exposures. In forecasting and calculating impairment, balances and trends in the cash flow behaviour of customer accounts are considered

It should be noted that Barclays' EL models and regulatory estimations present a conservative view compared to actual loss.

Regulatory Expected Loss
EL is an input to the capital adequacy process which can be seen as an expectation of average future loss derived from IRB models over a one year period as follows:

- Non-defaulted assets: EL is calculated using probability of default and downturn loss given default estimates
- Defaulted assets: EL is based upon an estimate of likely recovery levels for each asset and is generally referred to as ELBE

Actual Loss
Actual loss represents a regulatory view of the amount charged against profit.

Table 42: Analysis of expected loss versus actual losses for IRB exposures

IRB Exposure Class	EL £m	ELBE £m	Total expected loss at 31 December 2013 (CRD III basis) £m	Total actual loss at 31 December 2014 £m
Central governments or central banks	7	–	7	–
Institutions	6	4	10	2
Corporates	685	648	1,333	130
Retail				
– SME	133	140	273	6
– Secured by real estate collateral	388	644	1,032	205
– Qualifying revolving retail	747	965	1,712	728
– Other retail	236	699	935	194
Equity	2	–	2	–
Securitisation positions	n/a	n/a	n/a	n/a
Non-credit obligation assets	n/a	n/a	n/a	n/a
Total IRB	2,204	3,100	5,304	1,265

	EL £m	ELBE £m	Total expected loss at 31 December 2012 (CRD III basis) £m	Total actual loss at 31 December 2013 (CRD III basis) £m
Central governments or central banks	8	–	8	–
Institutions	6	34	40	–
Corporates	689	1,176	1,865	242
Retail				
– SME	144	132	276	114
– Secured by real estate collateral	451	718	1,169	266
– Qualifying revolving retail	672	1,068	1,740	712
– Other retail	264	775	1,039	166
Equity	1	–	1	–
Securitisation positions	n/a	n/a	n/a	n/a
Non-credit obligation assets	n/a	n/a	n/a	n/a
Total IRB	2,235	3,903	6,138	1,500

Actual loss decreased by £0.2bn due to:

- Reductions in Corporate exposures driven by PCB and the Investment bank
- Reductions in Retail exposures primarily within the UK for SME exposures

Expected loss decreased across all classifications throughout 2013 including reduction in corporate exposures driven by the sale of claims relating to Lehman Brothers Special Financing Inc.

Non-traded equity investments

The adopted regulatory definition of equity is consistent with the IFRS definition used within the Annual Report. For non trading book equity positions, the group calculates credit risk RWAs using both standardised and advanced calculations. However, the Advanced IRB approach is only available where regulatory approval has been given. Note that Barclays no longer holds RWAs for non trading book positions using the simple approach. The associated total as at 31 December 2013 was £307m.

Table 43: Fair value of, and gains and losses on equity investments

This table shows the fair value of non trading book equity positions subject to credit risk calculations, plus associated gains and losses. Equity positions deducted from capital are excluded from this population.

The holding of non trading book equity positions is primarily related to the holding investments by the Private Equity business.

Non trading book equity positions

Fair Value	As at 31 December 2014 Total £m	As at 31 December 2013 (CRD III basis) Total £m
Exchange Traded	152	564
Private Equity	1,136	902
Other	36	14
Total	1,324	1,480
Realised gains /(losses) from sale and liquidations of equity investments	36	78
Unrealised gains	119	153
Unrealised gains included in PRA transitional CET1 Capital	–	153

Non trading book fair value equity balances remained broadly flat at £1.3bn.

Analysis of counterparty credit risk

This section details Barclays' counterparty credit risk profile, focusing on regulatory measures such as exposure at default and risk weighted assets. The risk profile is analysed by business segment, financial contract type, approach and notional value.

- Risk weighted assets decreased 18.3% to £49.1bn, driven by risk reductions in the Investment Bank and BNC
- Exposure at default decreased 17.0% to £123.7bn driven by: risk reductions in the Investment Bank and BNC
- Counterparty credit risk RWAs are primarily generated by the following IFRS account classifications: Derivative financial instruments; reverse repurchase agreements; and other similar secured lending

Risk weighted assets for counterparty credit risk reduced in the year

-£11.0bn total RWA

Driven by:

-£16.0bn

From risk reductions in the Investment Bank and Non-Core. offset by

+£3.5bn

Due to early implementation of a revised credit risk model for assessing the probability of counterparty default.

Counterparty Credit Risk

Counterparty credit risk (CCR) is the risk related to a counterparty defaulting before the final settlement of a transaction's cash flows. Barclays calculate CCR using three methods; internal model method (IMM), financial collateral comprehensive method (FCCM) and mark to market method (MTM).

Table 44: Counterparty credit exposures analysed by financial contract type

This table shows the Group's counterparty credit risk exposure at default post-CRM analysed by the type of financial contract. The nature of the calculation of credit exposure under the Internal Model Method (IMM) precludes the identification of individual product exposures. As such, the split per financial contract type for IMM is not shown in the table below.

Financial Contract Type			
As at 31 December 2014	EAD Post CRM under Internal Model Method £m	EAD Post CRM under Other Approaches £m	EAD Post CRM under Mark to Market Approach £m
Interest Rate Contracts	–	–	2,700
Foreign Currency Contracts	–	–	760
Equities Contracts	–	–	4,256
Precious Metal other than Gold Contracts	–	–	92
Commodities other than Precious Metal Contracts	–	–	2,118
Securities financing transactions	–	13,088	–
Credit Derivatives	–	–	1,607
Other	–	1,095	1
Total	96,254	14,183	11,534
As at 31 December 2013 (CRD III basis)			
Interest Rate Contracts	–	–	409
Foreign Currency Contracts	–	–	363
Equities Contracts	–	–	468
Precious Metal other than Gold Contracts	–	–	–
Commodities other than Precious Metal Contracts	–	–	625
Securities financing transactions	–	4,283	–
Credit Derivatives	–	–	326
Other	–	3,296	821
Total	68,040	7,579	3,012

Exposures under the IMM increased by £28.2bn to £96.3bn, primarily driven by:

- Inclusion of exchange based trades following the implementation of CRD IV requirements
- Movement of securities financing transactions (SFT) to banking book treatment which reduced netting and increased the net exposure
- Change in approach from reporting unstressed EAD under CRDIII to stressed EAD under CRD IV

Offset by

- Migration of exposures from IMM to MTM and FCCM approach

The exposure under other approaches increased £6.6bn to £14.2bn, primarily driven by the migration of securities financing transactions exposures from the IMM to FCCM.

Exposures under the MTM method increased by £8.5bn to £11.5bn. This is primarily due to the migration of exposures from the IMM to the MTM approach, and to the inclusion of transactions effected on exchanges following the implementation of CRD IV requirements.

Analysis of counterparty credit risk

Table 45: Counterparty credit exposure by approach

This table shows counterparty credit risk trading book exposures for derivative exposures. The population does not include CCR relating to securities financing or other categories.

Exposures reported under mark to market (MTM) method refer to credit exposures arising from derivatives that are not measured using a modelled approach. Such exposures are subject to appropriate netting and collateral offsets and require adjustment for market driven movements that may lead to increased replacement cost at the time of default (potential future credit exposure).

Internal model method (IMM) is the most risk sensitive approach available for the calculation of CCR exposures. Please note that as the IMM method considers the interactions of different factors such as collateral and market movements within a statistical simulation across a range of asset classes, the output cannot be split across the categories shown in the columns below.

Outstanding amount of exposure held						
At 31 December 2014	Gross Positive Fair Value of Contracts £m	Potential Future Credit Exposure £m	Netting Benefits £m	Net Current Credit Exposure £m	Collateral Held £m	Net Derivatives Credit Exposure £m
Mark to Market Method	12,626	14,686	(15,292)	12,020	486	11,534
Internal Model Method	–	–	–	–	–	60,545
At 31 December 2013 (CRD III basis)						
Mark to Market Method	3,858	3,088	(3,629)	3,317	305	3,012
Internal Model Method	–	–	–	–	–	45,344

The IMM derivative credit exposure increased by £15.2bn to £60.5bn primarily driven by the inclusion of transactions settled on exchanges following the implementation of CRD IV requirements, partly offset by:

MTM method net derivative credit exposure increased by £8.5bn to £11.5bn principally driven by the migration of exposures from the IMM to the MTM approach, and the inclusion of transactions settled on exchanges following the implementation of CRD IV requirements.

Credit derivative notionals

The following table shows the notional of the credit derivative transactions outstanding as at 31 December 2014.

Table 46: Notional exposure associated with credit derivative contracts

This table splits the notional values of credit derivatives, credit default swaps (CDS) and total return swaps (TRS), by two categories: own credit portfolio and intermediation activities.

Own credit portfolio consist of trades used for hedging and credit management. Intermediation activities cover all other credit derivatives and includes trades cleared by other subsidiaries on behalf of BB Plc.

Note, credit derivatives booked arising from clearing activities performed on behalf of external counterparties (for example within Barclays subsidiaries) are not reported in this table as the Group does not have any long / short exposures to the underlying reference obligations.

Outstanding Amount of Exposure held:				
	Own Credit Portfolio		Intermediation Activities	
Credit derivative product type At 31 December 2014	As Protection Purchaser £m	As Protection Seller £m	As Protection Purchaser £m	As Protection Seller £m
Credit Default Swaps	3,077	1,554	545,510	523,456
Total Return Swaps	–	–	19,633	–
Total	3,077	1,554	565,143	523,456
Credit Derivative Product Type As at 31 December 2013 (CRD III basis)				
Credit Default Swaps	6,132	2,575	774,248	764,599
Total Return Swaps	–	–	14,172	–
Total	6,132	2,575	788,420	764,599

Own credit portfolio, which mainly comprises derivatives used to manage the banking book, reduced by £4.1bn to £4.6bn, reflecting a £3.0bn reduction to £3.1bn as protection purchaser of both credit default swaps and total return swaps and a £1.0bn reduction to £1.6bn as protection seller, principally driven by improving market conditions leading to closure of certain trades.

Intermediation activities, which mainly comprises derivatives used to manage the trading book, reduced by £464.4bn to £1,089bn, reflecting a decrease by £223.3bn to £565.1bn in relation to credit default swap protection purchased and a £241.1bn decrease to £523.5bn in relation to credit default swap protection sold, driven principally by the closing out of positions and the unwinding of bilateral trades.

Analysis of counterparty credit risk

Table 47: Notional value of credit derivative contracts held for hedging purposes

Risk Methodology

	As at 31 December 2014 £bn	As at 31 December 2013 (CRD III basis) £bn
Notional value of credit derivative hedges for Mark to Market Method	771	225
Notional value of credit derivative hedges under the Internal Model Method	1,271	1,732
Total	2,042	1,957

The notional value of credit derivative hedges has increased by £85bn to £2,042bn driven by the increases in new credit derivative hedges under the MTM method, partly offset by decreases in IMM due to lower hedges and maturity.

Analysis of market risk

This section contains key disclosures describing the Group's market risk profile, highlighting regulatory as well as management measures. This includes risk weighted assets by major business line, as well as Value at Risk measures.

- Risk weighted assets decreased 28% to £52.1bn (2014:£72.7bn), driven by reduced trading volumes, lower volatility and disposals in BNC
- Measures of traded market risk, such as Value at Risk, decreased in the year due to lower volatility and risk reduction in BNC businesses. Average daily trading revenue was lower as a result but showed lower variability
- Market risk RWAs are primarily generated by the following IFRS account classifications: Trading portfolio assets and liabilities; and derivative financial instruments and liabilities

Risk weighted assets for market risk reduced in the year

-£20.6bn Total RWAs

Driven by:

-£15.8bn

Risk reductions within the Investment Bank and BNC.

-£3.6bn

Change of scope for portfolios subject to the modelled approach

We saw lower income from reduced activity and a reduction in associated risk measures

98%

Of days generated positive trading revenue

-24%

Reduction in management Value at Risk.

-22%

Reduction in average daily revenue

Analysis of market risk

Market risk is the risk of a reduction to earnings or capital due to volatility of trading book positions or an inability to hedge the banking book balance sheet.

Overview of market risk

This section contains key statistics describing the market risk profile of the bank. It includes both regulatory and management measures. This includes risk weighted assets by major business line, as well as Value at Risk (VaR) measures. A distinction is made between regulatory and management measures within the section. The market risk management section on pages 136-146 provides full descriptions of these metrics.

- Page 73 provides a view of market risk in the context of the Group's balance sheet;
- Pages 139 to 144 cover the management of traded market risk. Management measures are shown from page 139 and regulatory equivalent measures are shown from page 141; and
- Non-traded market risk, arising from our banking books, is reviewed from page 78.

Measures of market risk in the Group and accounting measures
The relationship between the Group's market risk measures and balance sheet is presented on page 73. Traded market risk measures such as VaR and balance sheet exposure measures have fundamental differences:

- Balance sheet measures show accruals-based balances, or marked to market values as at the reporting date;
- VaR measures also take account of current marked to market values, but in addition hedging effects between positions are considered; and
- In addition, the measures are expressed in terms of changes in value or volatilities as opposed to static values.

For these reasons, it is not possible to present direct reconciliations of traded market risk and accounting measures. To help the reader understand the linkages between market risk measures at a high level, comparisons of exposures and balance sheet measures are provided:

- 'Balance sheet view of trading and banking books', on page 73, highlights the main categories of assets that are subject to market risk; and
- 'Principal asset and liability balances subject to market risk in the Investment Bank, BNC and Head Office', on page 76, provides another view; balance sheet values are shown for market risk-taking business lines.

Summary of performance in the period

The Group has seen a decrease in market risk from lower volatility in certain financial markets, reflecting notably equities, credit and interest rates, in addition to risk reduction in BNC businesses.

- Measures of traded market risk, such as Value at Risk, decreased in the year due to lower volatility and risk reduction in BNC businesses;
- This translated into lower volatility in daily trading revenue as reflected in the trading revenue histogram on page 75, although with lower average daily revenue from 2013 levels;
- Market risk RWAs fell from 2013 levels as a result of lower volatility and reduction of BNC assets;
- Annual Earnings at Risk (AEaR) to interest rate shocks, a key measure of interest rate risk in the banking book (IRRBB), increased in 2014, due to increased current account balances and an improvement in the completeness of the model; and
- Other market risks, such as pension risk and insurance, are disclosed from page 137 onwards.

Balance sheet view of trading and banking books

As defined by the regulatory rules, a trading book consists of positions held for trading intent or to hedge elements of the trading book. Trading intent must be evidenced in the basis of the strategies, policies and procedures set up by the firm to manage the position or portfolio. The below table provides a Group-wide overview of where assets and liabilities on the Group's regulatory balance sheet are managed within regulatory traded and non-traded books.

The balance sheet split by trading book and banking book is shown on an IFRS scope of consolidation. The reconciliation between the accounting and regulatory scope of consolidation is shown in table 1. The reconciling items are all part of the banking book.

Table 48: Balance sheet split by trading and banking books

As at 31 December 2014	Banking book[a] £m	Trading book £m	Total £m
Cash and balances at central banks	39,695	–	39,695
Items in course of collection from other banks	1,210	–	1,210
Trading portfolio assets	2,045	112,672	114,717
Financial assets designated at fair value	27,615	10,685	38,300
Derivative financial instruments	441	439,468	439,909
Available for sale financial investments	86,066	–	86,066
Loans and advances to banks	40,420	1,691	42,111
Loans and advances to customers	397,919	29,848	427,767
Reverse repurchase agreements and other similar secured lending	131,161	592	131,753
Prepayments, accrued income and other assets	3,607	–	3,607
Investments in associates and joint ventures	711	–	711
Property, plant and equipment	3,786	–	3,786
Goodwill and intangible assets	8,180	–	8,180
Current tax assets	334	–	334
Deferred tax assets	4,130	–	4,130
Retirement benefit assets	56	–	56
Non current assets classified as held for disposal	15,574	–	15,574
Total assets	762,950	594,956	1,357,906
Deposits from banks	57,451	939	58,390
Items in course of collection due to other banks	1,177	–	1,177
Customer accounts	418,522	9,182	427,704
Repurchase agreements and other similar secured borrowing	121,311	3,168	124,479
Trading portfolio liabilities	46	45,078	45,124
Financial liabilities designated at fair value	16,427	40,545	56,972
Derivative financial instruments	1,888	437,432	439,320
Debt securities in issue	86,099	–	86,099
Subordinated liabilities	21,153	–	21,153
Accruals, deferred income and other liabilities	11,423	–	11,423
Provisions	4,135	–	4,135
Current tax liabilities	1,021	–	1,021
Deferred tax liabilities	262	–	262
Retirement benefit liabilities	1,574	–	1,574
Liabilities included in disposal groups classified as held for sale	13,115	–	13,115
Total liabilities	755,604	536,344	1,291,948

Included within the trading book are assets and liabilities which are included in the market risk regulatory measures. For more information on these measures (VaR, SVaR, IRC and APR) see the risk management section on page 136.

Note
a The primary risk factors for banking book assets and liabilities are interest rates and to a lesser extent, foreign exchange rates. Credit spreads and equity prices will also be a factor where the Group holds debt and equity securities respectively, either as financial assets designated at fair value (see Note 14 of the Annual Report) or as available for sale (see Note 16 of the Annual Report).

Traded market risk review

Review of management measures
The following disclosures provide details on management measures of market risk. See pages 139 to 144 for more detail on management measures and the differences when compared to regulatory measures.

The table below shows the total Group management VaR by asset class (see page 139 for definitions), as well as the impact of diversification. The majority of VaR arises out of the Investment Bank. Additional limited trading activity is undertaken in Africa Banking on behalf of clients. VaR also arises in Treasury in relation to certain products (mainly for hedging and liquidity purposes). Finally, certain legacy positions in BNC attract VaR.

Limits are applied against each asset class VaR as well as total management VaR, which are then cascaded further by risk managers to each business.

The management VaR numbers in the table below include add-ons, to better represent the market risk where the VaR model may not fully represent some risk factors. See page 144 for a description of risks not in VaR (RNIVs).

Table 49: The daily average, maximum and minimum values of management VaR

For the year ended 31 December	2014			2013		
Management VaR (95%)	Average £m	High[a] £m	Low[a] £m	Average £m	High[a] £m	Low[a] £m
Credit risk	11	15	9	18	25	12
Interest rate risk	11	17	6	13	24	6
Equity risk	10	16	6	11	21	5
Basis risk	4	8	2	11	17	7
Spread risk	4	8	3	11	21	5
Foreign exchange risk	4	23	1	4	7	2
Commodity risk	2	8	1	5	8	2
Inflation risk	2	4	2	3	8	2
Diversification effect[a]	(26)	n/a	n/a	(47)	n/a	n/a
Total management VaR	22	36	17	29	39	21

Average management VaR for the Group fell by 24% to £22m, with all individual risk type components reducing, particularly credit, spread and basis risks. The three main contributors to average management VaR were credit, interest rate and equity risk.

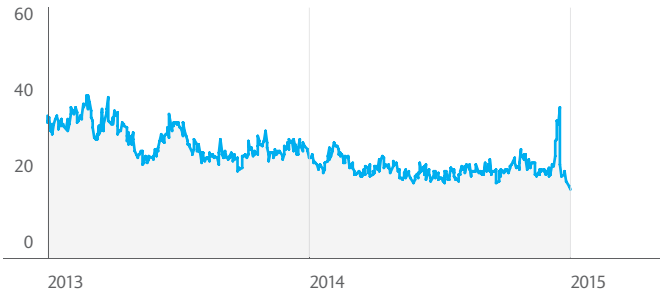
Average credit risk VaR decreased 39% to £11m reflecting lower volatility driven by low credit spreads. Spread risk and Basis risk VaR decreased in part due to the lower interest rates environment. Average commodities VaR declined 60% to £2m primarily as a result of risk reduction in BNC businesses. Average Equity VaR was broadly stable compared to the previous year and also saw an environment of low volatility for most of the year. Average Foreign exchange VaR was broadly stable over the year, but saw a peak of £23m in late December 2014 due to an increase in positions that were held for a brief period of time. Foreign Exchange VaR fell back before the year-end when the positions were closed out. See also the Group management VaR graph on the next page.

The business remained within the management VaR limits that were reported to the Board Financial Risk Committee (BFRC) throughout 2014 for both asset class VaR and total VaR.

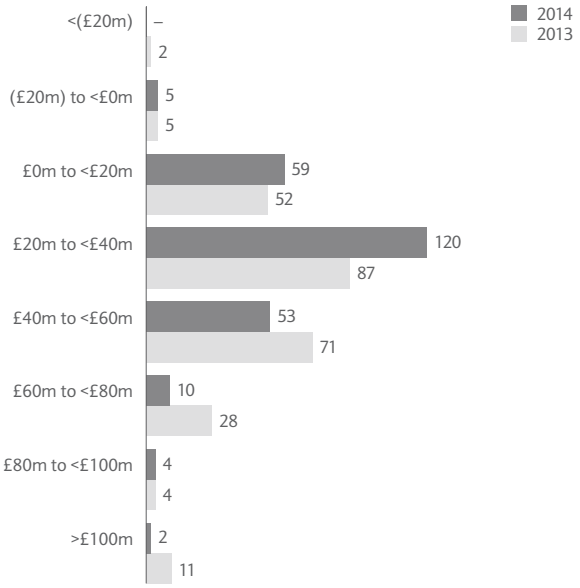
Note
a Diversification effects recognise that forecast losses from different assets or businesses are unlikely to occur concurrently, hence the expected aggregate loss is lower than the sum of the expected losses from each area. Historic correlations between losses are taken into account in making these assessments. The high and low VaR figures reported for each category did not necessarily occur on the same day as the high and low VaR reported as a whole. Consequently a diversification effect balance for the high and low VaR figures would not be meaningful and is therefore omitted from the above table.

Analysis of market risk

Group management VaR



Group daily trading revenue



The chart above shows the distribution of daily revenue in 2014 and 2013. For 2014, this includes daily trading revenue generated in the Investment Bank (except for Private Equity and Principal Investments), Treasury, Barclays Africa and BNC. The BNC business does not undertake trading activities other than strategic disposals. Please see page 241 of the Annual Report for a discussion of BNC financial performance in 2014.

Daily trading revenue includes realised and unrealised mark to market gains and losses from intraday market moves, commission and advisory fees. The VaR measure above is not designed to be reconciled to the full revenue measure from the trading business. VaR shows the volatility of a hypothetical measure that reflects unrealised mark to market changes in positions under the assumption that they are held over a one-day period. VaR informs risk managers on the risk implications of current portfolio decisions.

The average daily revenue decreased 22% to £32m; however, there were more positive trading revenue days in 2014 than in 2013, with 98% (2013: 97%) of days generating positive trading revenue. The chart shows lower variability in daily income levels, which appears consistent with the decrease in average management VaR and lower market volatility.

The daily VaR chart illustrates a declining trend in 2014. The rise in late December 2014 was associated with an increase in positions in a specific market that were held for a brief period of time. VaR fell back when the positions were closed out. See the discussion of VaR by asset class on the previous page.

Analysis of market risk

The table below provides an overview of the assets and liabilities of the major trading portfolios and associated standalone management VaR. While the table on page 73 shows the total balance sheet breakdown for the Group, split by trading and banking books, the below table shows the assets and liabilities for the major trading portfolios in the Investment Bank that are most sensitive to market risk. These comprise available for sale investments, debt securities in issue, derivative financial instruments, and positions with other financial institutions at fair value, repurchase agreements, and trading portfolio assets/liabilities.

The restructuring of the business into Core and BNC in 2014 changed the portfolio structure. Management VaR is presented for the fourth quarter, the first full period since the restructure.

Table 50: Principal asset and liability balances subject to market risk in the Investment Bank, BNC and Head Office.

As at 31 December 2014

Portfolio	Description of business activity	Assets £m	Liabilities £m	Average over Q42014 Management VaR £m	Principal balance sheet line items	Principal market risk exposure
Client Capital Management	The function primarily manages counterparty risk exposures arising from derivative contracts.	102,610	99,821	11	Derivative financial instruments and repurchase agreements.	Hedging the firm's credit risk including counterparty risk exposure on derivatives.
Equities	Provides equity market making and risk management services for clients.	66,395	55,274	10	Trading portfolio asset/ liabilities and derivative financial instruments and repurchase agreements.	Provides derivative solutions to clients. The business also supports cash equity trading, primary market issuance and block trades.
Credit	Provides specific credit market exposures.	38,993	23,222	10	Derivative financial instruments and trading portfolio asset/liabilities and repurchase agreements.	Risk exposure is primarily to credit markets.
Treasury[a]	Provides funding and liquidity services	31,715	34,219	9	Available for sale financial investments and debt securities in issue.	The principal service is the execution of liquidity and funding operations.
Macro	Market maker in foreign exchange, rates, commodities and local markets.	118,791	119,302	8	Derivative financial instruments and trading portfolio asset/liabilities and repurchase agreements.	Market risk exposure arises from credit trading including bond syndication, and interest rate, currency and commodity market making and trading. The business is well-diversified leading to low risk.
BNC	Manages assets from BNC operations.	351,247	328,859	4	Derivative financial instruments and repurchase agreements and trading portfolio asset/liabilities.	Exposures which the business has been managing down.
Other subject to management VaR	Primarily provides financing solution for clients.	551	11,256	n/a	Debt securities in issue/ Issued debts.	Risk exposure is primarily to debt capital markets.
Other, including diversification effects	–	–	–	(30)	–	–
Total subject to management VaR	–	**710,302**	**671,953**	**22**	–	–
Other Investment Bank, Non-Core and Head Office	–	**265,866**	**237,213**	n/a	–	–
Total Investment Bank, Non-Core and Head Office	–	**976,168**	**909,166**	**22**	–	–

Note
a Treasury contain banking book positions that will be treated under the non-traded market risk framework in 2015.

Analysis of market risk

In order to provide an estimation of the scale of the balance sheet instruments that generate market risk, as defined by the Group for purposes of risk management, assets and liabilities that are expected to generate market risk have been aggregated by main business lines. Note, however, that due to differences in data sets for market risk and IFRS reporting some assets that do not generate market risk could be included. The "Other assets" line contains (i) business lines that are primarily defined as banking book, and (ii) line items that should not generate market risk.

Management VaR is shown at 95th percentile for Q4 2014. Market risks arising from the individual portfolios listed above diversify to provide total management VaR for the Investment Bank, BNC and Head Office. Some functions such as Treasury and Client Capital Management shows exposure as a result of the service it provides to the client facing franchise, such as managing the firm's exposure to counterparty default or providing funding to execute business.

Business Scenario Stresses

As part of the Group's risk management framework, on a regular basis the performance of the trading business in hypothetical scenarios characterised by severe macroeconomic conditions is modelled. Up to six global scenarios are modelled on a regular basis, for example, a sharp deterioration in liquidity, a slowdown in the global economy, terrorist attacks, global recession and a sovereign peripheral crisis.

Similarly to 2013, throughout 2014 the scenario analyses showed the biggest market risk related impact would be due to a severe deterioration in liquidity and a rapid slowdown in the global economy.

Review of regulatory measures

The following disclosures provide details on regulatory measures of market risk. See pages 141 and 145 for more detail on regulatory measures and the differences when compared to management measures.

The Group's market risk capital requirements comprise two elements:

- Trading book positions booked to legal entities within the scope of the Group's PRA waiver where the market risk is measured under a PRA approved internal models approach, including regulatory VaR, Stressed Value at Risk (SVaR), Incremental Risk Charge (IRC) and All Price Risk (APR) as required; and
- Trading book positions that do not meet the conditions for inclusion within the approved Internal Models Approach. Their capital requirement is calculated using standardised rules.

The table below summarises the regulatory market risk measures, under the internal models approach. See table 53 on page 78 for a breakdown of capital requirements by approach.

Table 51: Analysis of regulatory VaR, SVaR, IRC and APR

As at 31 December 2014	Year-end £m	Average £m	Max £m	Min £m
Regulatory VaR	29	39	66	29
SVaR	72	74	105	53
IRC	80	118	287	58
APR	24	28	39	24
As at 31 December 2013				
Regulatory VaR	42	46	67	31
SVaR	90	85	112	61
IRC	139	238	539	115
APR	29	141	183	29

Overall, there was a lower risk profile during 2014:

- SVaR decreased by 20% to £72m driven by equities and foreign exchange;
- IRC decreased by 42% to £80m as a result of a reduction in exposure to lower-rated sovereigns as well as increased diversification; and
- APR decreased by 17% to £24m as a result of the sale of positions.

Table 52: Breakdown of the major regulatory risk measures by portfolio

As at 31 December 2014	Macro £m	Equities £m	Credit £m	Client Capital Management £m	Treasury £m	Africa £m	BNC £m
Regulatory VaR	11	17	7	21	1	2	8
SVaR	29	82	19	42	10	3	21
IRC	195	16	211	62	–	–	94
APR	–	–	–	–	–	–	24

The table above shows the primary portfolios which are driving the trading businesses' modelled capital requirement as at 2014 year end. The standalone portfolio results diversify at the total level and are not necessarily additive. Regulatory VaR, SVaR, IRC and APR in the prior table shows the diversified results.

Analysis of market risk

Capital requirements for market risk

The table below breaks down the elements of capital requirements and risk weighted assets under the market risk framework as defined in the CRR. The Group is required to hold capital for the market risk exposures arising from regulatory trading books. Inputs for the modelled components include the measures on table "Analysis of regulatory VaR, SVaR, IRC and APR", using the higher of the end of period value or an average over the last 60 days (times a multiplier in the case of VaR and SVaR).

Table 53: Minimum capital requirement for market risk

	Capital requirements		Risk weighted assets	
Market risk	As at 31 December 2014 £m	As at 31 December 2013 £m	As at 31 December 2014 £m	As at 31 December 2013 £m
VaR model based PRR	329	400	4,113	4,998
SVaR PRR	632	795	7,900	9,934
APR measure requirement	27	80	338	996
RNIV	387	350	4,838	4,391
Incremental risk charge requirement	91	168	1,138	2,103
Interest rate PRR	968	899	12,100	11,238
Equity PRR	308	338	3,850	4,224
Option PRR	68	21	850	261
Collective investment schemes PRR	86	68	1,075	848
Commodity PRR	2	4	25	51
Foreign exchange PRR	27	27	339	335
Total market risk	2,925	3,150	36,566	39,379
Specific interest rate risk of securitisation positions	300	88	3,750	1,101

VaR model based PRR, SVaR PRR, APR measure, RNIV and the incremental risk charge shown in the table above represent the modelled RWA component, with the remainder contributing towards the Standardised approach.

RWAs decreased to £36.6bn (2013: £39.4bn) due to improving market conditions and general reduction in exposures across the main books, for example, sovereign exposures affecting the IRC charge.

The increase in RNIV is mainly driven by the Group's Cost of Funding Non VaR type RNIV. This captures the potential variation of the fair value adjustment in the uncollateralised derivatives portfolio arising from funding spread risks. This is partially offset by the removal of Credit Index Options vega VaR type RNIV as the risk is now captured in VaR and SVaR. This RNIV captured the volatility risk factor affecting credit default spread index options. See page 144 for more background on RNIVs.

Non-traded market risk

Net interest income sensitivity

The table below shows sensitivity analysis on the pre-tax net interest income for the non-trading financial assets and financial liabilities. The sensitivity has been measured using the Annual Earnings at Risk (AEaR) methodology as described on page 145. The benchmark interest rate for each currency is set as at 31 December of the same year. The effect of structural hedging is taken into account. The tables below show that net interest income would increase given a rise in rates; however, this analysis does not include the potential impacts on the impairment charge due to the effect of interest rates on affordability. This effect would depend on the wider economic environment and have the opposite effect on total profit.

Banking book exposures held or issued by the Investment Bank are excluded from the interest rate sensitivity tables as these are measured and managed using VaR.

Analysis of market risk

Table 54: Net interest income sensitivity (AEaR) by business unit

As at 31 December 2014	Personal & Corporate Banking £m	Barclaycard £m	Africa £m	BNC[a] £m	Other[b] £m	Total £m
+200bps	464	(59)	26	6	(97)	340
+100bps	239	(27)	13	3	(58)	170
-100bps	(426)	26	(9)	(1)	26	(384)
-200bps	(430)	29	(17)	(1)	39	(380)
As at 31 December 2013						
+200bps	373	(84)	19	9	(92)	225
+100bps	195	(42)	9	5	(57)	110
-100bps	(315)	25	(8)	(1)	56	(243)
-200bps	(352)	26	(15)	(1)	49	(293)

AEaR increased 51% to £340m to a +200bp parallel shock. This was predominantly due to an increase in PCB account balances for which a structural hedge is in place. AEaR to the -200bp shock increased to £380m (2013: £293m) predominantly due to the inclusion of re-pricing lag risk in the PCB model. This is the risk of being unable to re-price products immediately after a change in rates due to mandatory notification periods.

Table 55: Net interest income sensitivity (AEaR) by currency

As at 31 December	2014		2013	
	+100 basis points £m	-100 basis points £m	+100 basis points £m	-100 basis points £m
GBP	126	(373)	92	(199)
USD	25	(19)	9	(21)
EUR	(9)	24	(18)	(7)
ZAR	11	(8)	10	(9)
Other currencies	17	(8)	17	(7)
Total	170	(384)	110	(243)
As percentage of net interest income	1.40%	3.18%	0.95%	2.09%

Net interest income sensitivity mainly arises in GBP, driven by PCB as discussed in the above table.

Barclays measure some non-traded market risks using an economic capital (EC) methodology. EC is predominantly calculated using a daily VaR model and then scaled up to a 1 year EC confidence interval (99.98%). For more information on definitions of prepayment, recruitment and residual risk, and on how EC is used to manage market risk, see the market risk management section on page 145.

The table below shows the EC figures for the main non trading businesses, where non traded market risk EC is part of the business limit framework.

Table 56: Economic Capital for non-traded risk by business unit

As at 31 December 2014	Personal & Corporate Banking £m	Barclaycard £m	Africa Banking £m	BNC[c] £m	Total £m
Prepayment risk	32	15	–	–	47
Recruitment risk	148	1	–	–	149
Residual risk[a]	12	3	34	16	65
Total	192	19	34	16	261
As at 31 December 2013					
Prepayment risk	31	10	–	–	41
Recruitment risk	112	2	–	–	114
Residual risk	10	4	38	13	65
Total	153	16	38	13	220

Total EC has increased 19% to £261m (2013: £220m), primarily due to an increase in recruitment risk in PCB. This is due to the increase in mortgage and fixed rate savings product pipelines for which pre-hedges are in place.

Notes
a Only retail exposures within BNC are included in the calculation.
b Other consists of Treasury and adjustments made for hedge ineffectiveness. The hedge ineffectiveness accounts for the portion of the movements in hedging instruments that cannot be deferred from the income statements to the hedge reserves. This arises where the movement in the hedging instrument exceeds the movement of the hedged item in absolute terms.
c Only the retail exposures within Non-Core are captured in the measure.

Analysis of equity sensitivity
The table below measures the overall impact of a +/- 100bps movement in interest rates on available for sale and cash flow hedge reserves. This data is captured using PV01 which is an indicator of the shift in asset value for a 1 basis point shift in the yield curve. Note that in 2014 the methodology used to estimate the impact of the negative movement applied a 0% floor to interest rates.

Table 57: Analysis of equity sensitivity

As at 31 December	2014		2013	
	+100 basis points £m	-100 basis points £m	+100 basis points £m	-100 basis points £m
Net interest income	170	(384)	110	(243)
Taxation effects on the above	(41)	92	(27)	61
Effect on profit for the year	129	(292)	83	(182)
As percentage of net profit after tax	15.27%	(34.56)%	6.40%	(14.03)%
Effect on profit for the year (per above)	129	(292)	83	(182)
Available for sale reserve	(698)	845	(861)	861
Cash flow hedge reserve	(3,058)	2,048	(2,831)	2,808
Taxation effects on the above	901	(694)	923	(917)
Effect on equity	(2,726)	1,907	(2,686)	2,570
As percentage of equity	(4.13)%	2.89%	(4.20)%	4.02%

As discussed in relation to the net interest income sensitivity table on page 79, the impact of a 100bps movement in rates is largely driven by PCB. The movement in The AFS reserve shows lower sensitivity in 2014 due to the disposal of large debt positions in Treasury. Note that the movement in the AFS reserve would impact CRD IV fully loaded CET1 capital, but the movement in the cash flow hedge reserve would not impact CET1 capital.

Foreign exchange risk

The Group is exposed to two sources of foreign exchange risk.

a) Transactional foreign currency exposure
Transactional foreign exchange exposures represent exposure on banking assets and liabilities, denominated in currencies other than the functional currency of the transacting entity.

The Group's risk management policies prevent the holding of significant open positions in foreign currencies outside the trading portfolio managed by the Investment Bank which is monitored through DVaR.

Banking book transactional foreign exchange risk outside of the Investment Bank is monitored on a daily basis by the market risk functions and minimised by the businesses.

b) Translational foreign exchange exposure
The Group's investments in overseas subsidiaries and branches create capital resources denominated in foreign currencies principally US Dollar, Euro and South African Rand. Changes in the GBP value of the net investments due to foreign currency movements are captured in the currency translation reserve, resulting in a movement in CET1 capital.

The Group's strategy is to minimise the volatility of the capital ratios caused by foreign exchange movements, by using the CET1 capital movements to broadly match the revaluation of the Group's foreign currency RWA exposures.

The economic hedges primarily represent the US Dollar and Euro preference shares and Additional Tier 1 instruments that are held as equity, accounted for at historic cost under IFRS and do not qualify as hedges for accounting purposes.

Table 58: Functional currency of operations

Functional currency of operations

As at 31 December 2014	Foreign currency net investments £m	Borrowings which hedge the net investments £m	Derivatives which hedge the net investments £m	Structural currency exposures pre-economic hedges £m	Economic hedges £m	Remaining structural currency exposures £m
US Dollar	23,728	5,270	1,012	17,446	6,655	10,791
Euro	3,056	328	238	2,490	1,871	619
Rand	3,863	–	103	3,760	–	3,760
Japanese Yen	364	164	208	(8)	–	(8)
Other	2,739	–	1,198	1,541	–	1,541
Total	33,750	5,762	2,759	25,229	8,526	16,703
As at 31 December 2013						
US Dollar	34,220	5,555	12,558	16,107	5,812	10,295
Euro	9,336	538	5,570	3,228	2,833	395
Rand	3,835	–	114	3,721	–	3,721
Japanese Yen	454	89	352	13	–	13
Other	2,850	–	1,101	1,749	–	1,749
Total	50,695	6,182	19,695	24,818	8,645	16,173

During 2014, total structural currency exposures net of hedging instruments remained stable at £16.7bn (2013: £16.2bn) and broadly in line with the overall RWA currency profile. Foreign currency net investments decreased by £16.9bn to £33.8bn (2013: £50.7bn) driven predominantly by the restructuring of Group subsidiaries. The hedges associated with these investments decreased by £16.9bn to £2.8bn (2013: £19.7bn).

Pension risk review

The UK Retirement Fund (UKRF) represents approximately 92% (2013: 91%) of the Group's total retirement benefit obligations globally. The other material overseas schemes are in South Africa and the US where they represent approximately 4% (2013: 5%) and 2% (2013: 2%) respectively of the Group's total retirement benefit obligations. As such, this risk review section will focus exclusively on the UKRF. Note that the scheme is closed to new entrants.

Pension risk arises as the estimated market value of the pension fund assets might decline, or the investment returns might reduce; or the estimated value of the pension liabilities might increase.

See pages 146 for more information on how pension risk is managed.

Assets

The Board of Trustees defines an overall long-term investment strategy for the UKRF, with investments across a broad range of asset classes. This ensures an appropriate mix of return-seeking assets to generate future returns as well as liability matching assets to better match the future pension obligations. The main market risks within the asset portfolio are against interest rates and equities, as shown by the analysis of scheme assets within Note 35 of the 2014 Annual Report.

Fair value of UKRF plan assets increased by 14% to £26.9bn. See Note 35 to the financial statements for details.

Liabilities

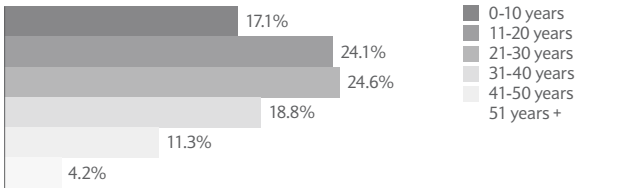
The retirement benefit obligations are a series of future cash flows with relatively long duration. On an IAS 19 basis these cash flows are sensitive to changes in the expected long-term inflation rate and the discount rate (AA corporate bond yield curve):

- An increase in long-term inflation corresponds to an increase in liabilities
- An increase in the discount rate corresponds to a decrease in liabilities

Pension risk is generated through the Group's defined benefits schemes and this risk is deemed to move to zero over time as the chart below shows. The chart below outline the shape of the liability cash flow profile, that takes account of future inflation indexing of payments to beneficiaries, with the majority of the cash flows (approximately 75%) falling between 0 and 40 years, peaking within the 21 to 30 year band and reducing thereafter. The shape may vary depending on changes in inflation expectation and mortality and it is updated in line with triennial valuation process.

For more detail on liability assumptions see Note 35 to the financial statements.

Proportion of liability cash flows



Risk measurement
In line with the Group's risk management framework, the assets and liabilities of the UKRF are modelled within a VaR framework to show the volatility of the pension positions on a total portfolio level. This ensures that the risks, diversification benefits and liability matching characteristics of the UKRF obligations and investments are adequately captured. VaR is measured and monitored on a monthly basis at the pension risk fora such as the Market Risk Committee, Pension Management Group and Pensions Executive Board. The VaR model takes into account the valuation of the liabilities based on an IAS 19 basis (see Note 35 to the financial statements). The trustees receive quarterly VaR measures on a funding basis.

The pension liability is also sensitive to post-retirement mortality assumptions. See Note 35 to the financial statements for more details.

In addition to this, the impact of pension risk to the Group is taken into account as part of the stress testing process. Stress testing is performed internally at least on an annual basis, covering scenarios such as European economic crisis and quantitative easing. The UKRF exposure is also included as part of the regulatory stress tests and exercises indicated that the UKRF risk profile is resilient to severe stress events.

The defined benefit pension scheme affects capital in two ways. The IAS 19 deficit impacts the CET1 capital ratio, and pension risk is also taken into account in the Pillar 2 capital assessment.

Triennial valuation
Please see Note 35 to the financial statements for information on the current position of the fund.

Insurance risk review

Insurance risk is managed within Africa Banking. From an economic capital perspective, four significant categories of insurance risk are reported. Please see page 146 for definitions and governance procedures.

The risk figures are based on economic capital principles and refer to 1 in 250 event levels. The underwriting risk appetite for short term insurance for 2014 was calculated based on the projected net written premium. See page 146 for a descriptions of the risks and a discussion of their measurement.

The year-on-year utilisation (as a percentage of approved appetite) remained relatively stable, except for life insurance mismatch risk which is explained below. The risk types below include the assessments of the main insurance risk types for determining the economic capital requirements.

Table 59: Analysis of insurance risk

	2014		2013	
As at 31 December	Position £m	Appetite £m	Position £m	Appetite £m
Short term insurance underwriting risk	40	44	40	51
Life insurance underwriting risk	21	28	22	26
Life insurance mismatch risk	16	40	17	44
Life and short-term insurance investment risk	12	14	12	16

Risk positions were broadly stable over the year. The life insurance mismatch risk utilisation was lower than appetite as a refined actuarial valuation methodology was implemented, and this model refinement resulted in a better matching position between assets and liabilities resulting in a desired lower mismatch for 2014 compared to 2013.

Credit Value Adjustments

The Credit Value Adjustment (CVA) measures the risk from MTM losses due to deterioration in the credit quality of a counterparty to over-the-counter derivative transactions with Barclays. It is a complement to the counterparty credit risk charge, that accounts for the risk of outright default of a counterparty.

⊕ See page 7 for a high-level description of the approach, and page 13 for a description of the scope of our permissions.

Table 60: CVA capital charge

Two approaches can be used to calculate the adjustment:

- Standardised approach: the Standardised calculation takes account of the external credit rating of each counterparty, and incorporates the effective maturity and EAD from the calculation of the CCR
- Advanced approach: this approach requires the calculation of the charge as a) a 10-day 99% Value at Risk (VaR) measure for the current one-year period and b) the same measure for a stressed period. The sum of the two VaR measures is tripled to yield the capital charge.

CVA capital charge

Total portfolios subject to the Advanced CVA capital Charge[a]	EAD post-CRM £m	RWA £m	Capital requirements £m
(i) VaR component (including the 3x multiplier)	25,689	2,244	180
(ii) Stressed VaR component (including 3x multiplier)	29,620	10,098	808
All portfolios subject to the Standardised CVA capital charge	3,318	3,163	253
Total subject to the CVA capital charge	–	15,505	1,241

Note
a This disclosure is a new requirement; as such, no prior period comparatives have been included.

Analysis of securitisation exposures

This section shows the credit, counterparty credit and market risk arising from securitisation positions. These are already included in previous related sections.

Securitisation positions are subject to a specific risk weighted assets calculation framework, which is why these are disclosed separately.

We have increased exposure to securitisations this year

10.4%

Increase relating to trading book securitisation exposure

56.6%

Reduction relating to capital requirements for trading book exposures, driven by BNC activity resulting in underlying asset quality improvements

Analysis of securitisation exposures

For regulatory disclosures purposes, a securitisation is defined as a transaction or scheme where the payments are dependent upon the performance of a single exposure or pool of exposures and where the subordination of tranches determines the distribution of losses during the on-going life of the transaction or scheme. Such transactions are undertaken for a variety of reasons including the transfer of risk for Barclays or on behalf of a client.

The tables below detail exposures from securitisation trades entered into by the Group and cover banking book and trading book exposures. Only transactions that achieved significant risk transfer (SRT) are included in these tables. Where securitisations do not achieve SRT (for instance when they are entered into for funding purposes), the associated exposures are presented alongside the rest of the banking book or trading book positions in other sections of the Pillar 3 report.

Please see page 148 for further details on Barclays' securitisation activities.

Barclays completes the Pillar 3 disclosures in accordance with the Basel framework, which prescribes minimum disclosure requirements. The following quantitative disclosures are not applicable or result in a nil return for the current and prior reporting period;

- Securitised facilities subject to an early amortisation period – there were no securitisation positions backed by revolving credit exposures, where Barclays acted as the originator and capital relief was sought
- Re-securitisation exposures subject to hedging insurance or involving financial guarantors – there were no such exposures in the current or prior reporting period
- A separate table for capital deduction is no longer applicable, in line with CRD IV

Barclays PLC Balance sheet – summary versus regulatory view for securitisation exposures

Table 1 shows a reconciliation between Barclays PLC balance sheet for statutory purposes versus a regulatory view. Specifically for securitisation positions, the regulatory balance sheet will differ from the statutory balance sheet due to the following:

- Deconsolidation of certain securitisation entities that are included in the scope of consolidation for accounting purposes, but not for regulatory purposes (refer to page 150 for a summary of accounting policies for securitisation activities)
- Securitised positions are treated in accordance with the Group's accounting policies, as set out in the 2014 Annual Report. Securitisation balances will therefore be disclosed in the relevant asset classification according to their accounting treatment
- Some securitisation positions are considered to be off balance sheet and relate to undrawn liquidity lines to securitisation vehicles, market risk derivative positions and where Barclays is a swap provider to a SPV. These balances are disclosed in table 65

Location of securitisation risk disclosures

Securitisation exposures are subject to a different risk weighted asset framework, therefore further granular disclosures are provided in addition to the exposure balances disclosed in the credit, counterparty and market risk sections.

Table 61: Reconciliation of exposures and capital requirements relating to securitisations

This table shows a reconciliation of securitisation exposures in the following section and where the balance can be found in the relevant credit, counterparty and market risk sections.

As at 31 December 2014	Table number in this document	Exposure value £m	RWAs £m	Capital requirement £m
Banking book				
Standardised approach				
Credit risk	Tables 11, 12, 16	–	–	–
Total Standardised approach		–	–	–
Advanced IRB				
Credit risk	Tables 11, 12, 16	20,848	5,315	425
Counterparty credit risk	Tables 13, 14	1,057	741	59
Total IRB		21,905	6,056	484
Total banking book		21,905	6,056	484
Trading book – specific interest rate market risk				
Risk weighted assets	Table 53	3,616	3,750	300
Total market risk		3,616	3,750	300

Analysis of securitisation exposures

Table 62: Securitisation activity during the year

This table discloses a summary of the securitisation activity during 2014, including the amount of exposures securitised and recognised gain or loss on sale in the banking book. Barclays is involved in the origination of traditional and synthetic securitisations. A securitisation is considered to be a synthetic securitisation where the transfer of risk is achieved through the use of credit derivatives or guarantee, and the exposure remains on Barclays' balance sheet.

	Banking book				Trading book			
	Traditional £m	Synthetic £m	Total banking book £m	Gain/loss on sale £m	Traditional £m	Synthetic £m	Total trading book £m	Gain/loss on sale £m
As at 31 December 2014								
Originator								
Residential Mortgages	–	93	93	–	–	–	–	–
Commercial Mortgages	2,389	–	2,389	37	–	–	–	–
Credit Card Receivables	–	–	–	–	–	–	–	–
Leasing	–	–	–	–	–	–	–	–
Loans to Corporates or SMEs	247	–	247	7	–	–	–	–
Consumer Loans	–	–	–	–	–	–	–	–
Trade Receivables	–	–	–	–	–	–	–	–
Securitisations/Re-securitisations	–	–	–	–	1,839	–	1,839	8
Other Assets	–	–	–	–	–	–	–	–
Total	2,636	93	2,729	44	1,839	–	1,839	8
As at 31 December 2013 (CRD III basis)								
Originator								
Residential Mortgages	–	99	99	–				
Commercial Mortgages	1,354	–	1,354	49				
Credit Card Receivables	–	–	–	–				
Leasing	–	–	–	–				
Loans to Corporates or SMEs	–	–	–	–				
Consumer Loans	–	–	–	–				
Trade Receivables	–	–	–	–				
Securitisations/Re-securitisations	–	–	–	–				
Other Assets	113	–	113	2				
Total	1,467	99	1,566	51	n/a	n/a	n/a	n/a

The value of assets securitised in the banking book increased by £1.1bn to £2.7bn.

- Increases in Commercial Mortgage programmes are due to Barclays' continued involvement in the securitisation of commercial mortgage loans, alongside third party banks. The amount shown in table 61 represents Barclays' share of assets contributed to the securitisation
- As part of these transactions, Barclays held the assets on its balance sheet prior to securitisation
- Barclays may participate in secondary trading of these positions in its trading book. At 31 December 2014, the exposure value of positions held was £59m. These are not reflected in the above table as for trading book purposes, Barclays is considered to be an investor
- Barclays was also involved in European and US CLO transactions where it provided tranched limited recourse financing and contributed a portion of the underlying loan assets that had been on Barclays' balance sheet. Value of assets contributed during 2014 was £247m as listed in the table above under "Loans to Corporate or SMEs" category

The value of assets securitised in the trading book is £1.8bn:

- Barclays also participates in re-securitisations of Real Estate Mortgage Investment Conduits (Re-REMICs) and purchases trading book assets for securitisations as part of its general trading book activities. The "Trading book" section of this table is a new disclosure as at 2014 year end. These represented £0.9bn as at 2013 year end.

Analysis of securitisation exposures

Table 63: Assets awaiting securitisation

This table discloses the value of assets held on the balance sheet at year end and awaiting securitisation.

Exposure Type	Banking Book £m	Trading Book £m
As at 31 December 2014		
Originator		
Residential Mortgages	33	–
Commercial Mortgages	422	–
Credit Card Receivables	–	–
Leasing	–	–
Loans to Corporates or SMEs	64	–
Consumer Loans	–	–
Trade Receivables	–	–
Securitisations/Re-securitisations	–	–
Other Assets	–	–
Total	519	–
As at 31 December 2013 (CRD III basis)		
Originator		
Residential Mortgages	58	–
Commercial Mortgages	601	–
Credit Card Receivables	–	–
Leasing	–	–
Loans to Corporates or SMEs	–	–
Consumer Loans	–	–
Trade Receivables	–	–
Securitisations/Re-securitisations	–	–
Other Assets	80	–
Total	739	–

Banking book assets awaiting securitisation decreased to £0.5bn (2013: £0.7bn), with no significant movements to note.

Analysis of securitisation exposures

Table 64: Outstanding amount of exposures securitised – Asset value and impairment charges

This table presents the asset values and impairment charges relating to securitisation programmes where Barclays is the originator or sponsor. Where Barclays contributed assets to a securitisation alongside third parties, the amount represents the entire asset pool. Barclays is considered a sponsor of two multi-seller asset-backed commercial paper (ABCP) conduits. Please note that table 64 will not reconcile to table 62, as it shows outstanding amount of exposure for the positions held/retained by Barclays, whereas table 62 shows the total position originated in 2014.

	Banking book					Trading Book
	Traditional £m	Synthetic £m	Total banking book £m	Of which past due £m	Recognised losses £m	Traditional £m
As at 31 December 2014						
Originator						
Residential Mortgages	4,021	99	4,120	588	–	203
Commercial Mortgages	4,500	–	4,500	–	–	–
Credit Card Receivables	–	–	–	–	–	–
Leasing	–	–	–	–	–	–
Loans to Corporates and SMEs	3,925	2,477	6,402	79	–	–
Consumer Loans	–	–	–	–	–	–
Trade Receivables	–	–	–	–	–	–
Securitisations/Re-securitisations	3,915	–	3,915	–	–	180
Other Assets	1,150	–	1,150	347	–	–
Total (Originator)	17,511	2,576	20,087	1,014	–	383
Sponsor						
Residential Mortgages	874	–	874	–	–	–
Commercial Mortgages	–	–	–	–	–	–
Credit Card Receivables	–	–	–	–	–	–
Leasing	891	–	891	17	–	–
Loans to Corporates and SMEs	953	–	953	2	–	–
Consumer Loans	2,812	–	2,812	38	–	–
Trade Receivables	708	–	708	4	–	–
Securitisations/Re-securitisations	–	–	–	–	–	–
Other Assets	98	–	98	–	–	–
Total (Sponsor)	6,336	–	6,336	61	–	–
Total	23,847	2,576	26,423	1,075	–	383
As at 31 December 2013 (CRD III basis)						
Originator						
Residential Mortgages	8,518	99	8,617	928	–	65
Commercial Mortgages	5,781	–	5,781	–	–	–
Credit Card Receivables	–	–	–	–	–	–
Leasing	–	–	–	–	–	–
Loans to Corporates and SMEs	4,616	2,920	7,536	169	–	–
Consumer Loans	–	–	–	–	–	–
Trade Receivables	–	–	–	–	–	–
Securitisations/Re-securitisations	977	–	977	–	–	–
Other Assets	–	–	–	–	–	–
Total (Originator)	19,892	3,019	22,911	1,097	–	65
Sponsor						
Residential Mortgages	1,052	–	1,052	–	–	–
Commercial Mortgages	–	–	–	–	–	–
Credit Card Receivables	–	–	–	–	–	–
Leasing	99	–	99	–	–	–
Loans to Corporates and SMEs	–	–	–	–	–	–
Consumer Loans	2,949	–	2,949	42	–	–
Trade Receivables	152	–	152	–	–	–
Securitisations/Re-securitisations	–	–	–	–	–	–
Other Assets	605	–	605	–	–	–
Total (Sponsor)	4,857	–	4,857	42	–	–
Total	24,749	3,019	27,768	1,139	–	65

Banking book securitised assets where Barclays is considered to be the originator or sponsor has reduced by £1.3bn to £26.4bn, due to:

Originator:

- Residential Mortgage positions, loans to Corporates and SMEs and Commercial mortgages have reduced primarily driven by the BNC

Sponsor:

- Barclays continues to provide liquidity and programme-wide credit enhancement to its remaining conduits: Sheffield Receivables Corporation and Salisbury Receivables Company.

Analysis of securitisation exposures

Table 65: Securitisation exposures – by exposure class

The table below discloses the aggregate amount of securitisation exposures held, which is consistent with table 66, 68, and table 69.

For originated positions, the table below discloses the exposure that Barclays has retained in the securitisation programmes disclosed in table 64. For clarity, table 64 discloses the underlying asset value of these programmes.

For invested and sponsored positions, the table below presents the aggregate amount of positions purchased.

	Banking book				Trading Book		
	Originator £m	Sponsor[a,b] £m	Investor £m	Total banking book £m	Originator £m	Investor £m	Total trading book £m
As at 31 December 2014							
On-balance sheet							
Residential Mortgages	345	–	1,862	2,207	7	1,848	1,855
Commercial Mortgages	–	–	4	4	–	396	396
Credit Card Receivables	–	–	214	214	–	150	150
Leasing	–	–	–	–	–	–	–
Loans to Corporates or SMEs	3,758	–	398	4,156	–	331	331
Consumer Loans	–	–	1,661	1,661	–	280	280
Trade Receivables	–	–	–	–	–	–	–
Securitisations/Re-securitisations	344	–	349	693	1	177	178
Other Assets	52	–	905	957	–	278	278
Total On-balance sheet	4,499	–	5,393	9,892	8	3,460	3,468
Off-balance sheet							
Residential Mortgages	401	–	920	1,321	–	19	19
Commercial Mortgages	252	–	218	470	–	129	129
Credit Card Receivables	–	–	653	653	–	–	–
Leasing	–	–	192	192	–	–	–
Loans to Corporates or SMEs	167	–	130	297	–	–	–
Consumer Loans	–	4,931	2,904	7,835	–	–	–
Trade Receivables	–	–	45	45	–	–	–
Securitisations/Re-securitisations	89	–	31	120	–	–	–
Other Assets	153	25	902	1,080	–	–	–
Total Off-balance sheet	1,062	4,956	5,995	12,013	–	148	148
Total	5,561	4,956	11,388	21,905	8	3,608	3,616
As at 31 December 2013 (CRD III basis)							
On-balance sheet							
Residential Mortgages	1,092	1,052	1,722	3,866	65	2,009	2,074
Commercial Mortgages	56	–	4	60	–	305	305
Credit Card Receivables	–	–	492	492	–	103	103
Leasing	–	99	5	104	–	–	–
Loans to Corporates or SMEs	4,106	–	1,099	5,205	–	248	248
Consumer Loans	–	2,903	777	3,680	–	281	281
Trade Receivables	–	152	–	152	–	–	–
Securitisations/Re-securitisations	279	–	517	796	–	65	65
Other Assets	–	605	672	1,277	–	117	117
Total On-balance sheet	5,533	4,811	5,288	15,632	65	3,128	3,193
Off-balance sheet							
Residential Mortgages	531	–	1,159	1,690	–	66	66
Commercial Mortgages	–	–	555	555	–	6	6
Credit Card Receivables	–	–	532	532	–	–	–
Leasing	–	–	–	–	–	–	–
Loans to Corporates or SMEs	154	–	75	229	–	7	7
Consumer Loans	–	46	1,838	1,884	–	–	–
Trade Receivables	–	–	–	–	–	–	–
Securitisations/Re-securitisations	–	–	36	36	–	4	4
Other Assets	–	–	1,151	1,151	–	–	–
Total Off-balance sheet	685	46	5,346	6,077	–	83	83
Total	6,218	4,857	10,634	21,709	65	3,211	3,276

The total amount of securitisation positions in the banking book has increased by £0.2bn to £21.9bn, driven by:
- Increase in exposures in "Consumer Loans" during the year driven by off balance sheet positions in the Core business clusters

Offset by,
- Reduction in exposures in "Loans to Corporates" and "Commercial Mortgages" as a result of disposal of BNC assets

The trading book exposure has increased by £0.3bn to £3.6bn, resulting from movements across a number of positions.

Notes
a The exposure type is based on the asset class of underlying positions.
b Off balance sheet relates to liquidity lines to securitisation vehicles, market risk derivative positions and where the Group is a swap provider to a SPV.

Analysis of securitisation exposures

Table 66: Securitisation exposures – by capital approach

This table discloses the total exposure value and associated capital requirement of securitisation positions held by the approach adopted in accordance with the Basel framework. Barclays has approval to use, and therefore applies the IRB approach for the calculation of its RWAs. The total population is consistent with tables 65, 68 and 69.

	Exposure values				Capital requirements			
As at 31 December 2014	Originator £m	Sponsor £m	Investor £m	Total £m	Originator £m	Sponsor £m	Investor £m	Total £m
Banking book								
IRB Approach								
Ratings based approach								
<= 10%	2,613	833	5,965	9,411	16	5	37	58
> 10% <= 20%	506	191	2,689	3,386	5	2	28	35
> 20% <= 50%	1,451	98	998	2,547	29	2	21	52
> 50% <= 100%	22	1	135	158	1	–	8	9
>100% <= 650%	692	–	40	732	59	–	8	67
> 650% <= 1250%	–	–	2	2	–	–	1	1
> 1250%	184	4	1,559	1,747	53	4	167	224
Non-1250%	–	–	–	–	–	–	–	–
Internal assessment approach	–	3,829	–	3,829	–	31	–	31
Supervisory formula method	93	–	–	93	7	–	–	7
Total IRB	5,561	4,956	11,388	21,905	170	44	270	484
Standardised approach	–	–	–	–	–	–	–	–
Total banking book	5,561	4,956	11,388	21,905	170	44	270	484
Trading book								
IRB Approach								
Ratings based approach	–	–	–	–	–	–	–	–
<= 10%	–	–	787	787	–	–	5	5
> 10% <= 20%	–	–	1,027	1,027	–	–	12	12
> 20% <= 50%	–	–	876	876	–	–	20	20
> 50% <= 100%	–	–	250	250	–	–	12	12
>100% <= 650%	–	–	348	348	–	–	61	61
> 650% <= 1250%	–	–	26	26	–	–	15	15
> 1250%	8	–	294	302	8	–	167	175
Non-1250%	–	–	–	–	–	–	–	–
Total trading book	8	–	3,608	3,616	8	–	292	300

Analysis of securitisation exposures

As at 31 December 2013 (CRD III basis)	Exposure values				Capital requirements			
	Originator £m	Sponsor £m	Investor £m	Total £m	Originator £m	Sponsor £m	Investor £m	Total £m
Banking book								
IRB Approach								
Ratings based approach								
<= 10%	2,784	1,171	6,207	10,162	17	7	40	64
> 10% <= 20%	413	193	1,899	2,505	4	2	20	26
> 20% <= 50%	1,719	42	1,979	3,740	35	1	41	77
> 50% <= 100%	20	–	172	192	1	–	10	11
>100% <= 650%	665	–	45	710	54	–	12	66
> 650% <= 1250%	–	–	2	2	–	–	1	1
> 1250% / Deducted	74	–	330	404	74	–	330	404
Non-1250% Deduction	–	–	–	–	–	–	–	–
Internal assessment approach	–	3,451	–	3,451	–	30	–	30
Supervisory formula method	266	–	–	266	2	–	–	2
Total IRB	**5,941**	**4,857**	**10,634**	**21,432**	**187**	**40**	**454**	**681**
Standardised approach	**277**	**–**	**–**	**277**	**8**	**–**	**–**	**8**
Total banking book	**6,218**	**4,857**	**10,634**	**21,709**	**195**	**40**	**454**	**689**
Trading book								
IRB Approach								
Ratings based approach								
<= 10%	–	–	363	363	–	–	2	2
> 10% <= 20%	–	–	991	991	–	–	4	4
> 20% <= 50%	–	–	853	853	–	–	19	19
> 50% <= 100%	–	–	277	277	–	–	16	16
>100% <= 650%	–	–	160	160	–	–	31	31
> 650% <= 1250%	–	–	28	28	–	–	16	16
> 1250% / Deducted	65	–	539	604	65	–	539	604
Non-1250% Deduction	–	–	–	–	–	–	–	–
Total trading book	**65**	**–**	**3,211**	**3,276**	**65**	**–**	**627**	**692**

Risk Weighted Band	IRB S&P Equivalent Rating	STD S&P Equivalent Rating
<=10%	AAA to A+ (Senior Position Only)	N/A
>10% <= 20%	A to A- (Senior Position Only) / AAA to A+ (Base Case)	N/A
>20% <= 50%	A to A- (Base Case)	AAA to AA-
>50% <= 100%	BBB+ to BBB (Base Case)	A+ to A-
>100% <= 650%	BBB- (Base Case) to BB (Base Case)	BBB+ to BBB-
>650% <= 1250%	BB- (Base Case)	N/A
>1250% / deduction	B+ & Below (Base Case)	B+ & Below
Non-1250% deduction	Cap deduction with assets rated BB- or above	

The total amount of securitisation positions in the banking book increased £0.2bn to £21.9bn primarily driven by:

- Increase in the > 10% <= 20% band as a result of on and off balance sheet "consumer loan" positions in the Core business
- Increase in the 1250% band due to new US and European CLO warehousing and Servicer Advance funding activities

Offset by:

- Decrease in the > 20% <= 50% band as a result of continued active reduction in BNC CLO negative basis trades

The trading book has increased by £0.3bn to £3.6bn in line with general market trading activities across the year.

Analysis of securitisation exposures

Table 67: Re-securitisation exposures – by risk weight band

The table is a subset of table 66 and discloses Barclays exposures to re-securitisations by capital approach. For the purposes of the table below, a re-securitisation is defined as a securitisation where at least one of the underlying exposures is a securitisation position. This is in line with Basel capital requirements.

For securitisations with mixed asset pools (for example some collateralised loan obligations), the exposure class disclosed in tables 65, 68 and 69 represents the exposure class of the predominant underlying asset class.

	Exposure values				Capital requirements			
As at 31 December 2014	Originator £m	Sponsor £m	Investor £m	Total £m	Originator £m	Sponsor £m	Investor £m	Total £m
Banking book								
IRB Approach								
Ratings based approach								
<= 10%	–	–	–	–	–	–	–	–
> 10% <= 20%	–	–	–	–	–	–	–	–
> 20% <= 50%	1,240	–	642	1,882	25	–	12	37
> 50% <= 100%	22	–	5	27	1	–	–	1
>100% <= 650%	–	–	16	16	–	–	3	3
> 650% <= 1250%	–	–	–	–	–	–	–	–
> 1250%	–	–	6	6	–	–	6	6
Non-1250%	–	–	–	–	–	–	–	–
Internal assessment approach	–	–	–	–	–	–	–	–
Supervisory formula method	–	–	–	–	–	–	–	–
Total IRB	1,262	–	669	1,931	26	–	21	47
Standardised approach	–	–	–	–	–	–	–	–
Total banking book	1,262	–	669	1,931	26	–	21	47
Trading book								
IRB Approach								
Ratings based approach								
<= 10%	–	–	–	–	–	–	–	–
> 10% <= 20%	–	–	–	–	–	–	–	–
> 20% <= 50%	–	–	205	205	–	–	5	5
> 50% <= 100%	–	–	18	18	–	–	1	1
>100% <= 650%	–	–	107	107	–	–	18	18
> 650% <= 1250%	–	–	5	5	–	–	4	4
> 1250%	1	–	56	57	1	–	56	57
Non-1250%	–	–	–	–	–	–	–	–
Total trading book	1	–	391	392	1	–	84	85

Table 67: Re-securitisation exposures – by risk weight band continued

	Exposure values				Capital requirements			
As at 31 December 2013 (CRD III basis)	Originator £m	Sponsor £m	Investor £m	Total £m	Originator £m	Sponsor £m	Investor £m	Total £m
Banking book								
IRB Approach								
Ratings based approach								
<= 10%	–	–	–	–	–	–	–	–
> 10% <= 20%	–	–	–	–	–	–	–	–
> 20% <= 50%	1,657	–	1,175	2,832	34	–	23	57
> 50% <= 100%	20	–	3	23	1	–	–	1
>100% <= 650%	15	–	–	15	3	–	–	3
> 650% <= 1250%	–	–	–	–	–	–	–	–
> 1250% / Deducted	–	–	46	46	–	–	46	46
Non-1250% Deduction	–	–	–	–	–	–	–	–
Internal assessment approach	–	–	–	–	–	–	–	–
Supervisory formula method	–	–	–	–	–	–	–	–
Total IRB	**1,692**	**–**	**1,224**	**2,916**	**38**	**–**	**69**	**107**
Standardised approach	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total banking book	**1,692**	**–**	**1,224**	**2,916**	**38**	**–**	**69**	**107**
Trading book								
IRB Approach								
Ratings based approach								
<= 10%	–	–	–	–	–	–	–	–
> 10% <= 20%	–	–	–	–	–	–	–	–
> 20% <= 50%	–	–	73	73	–	–	2	2
> 50% <= 100%	–	–	9	9	–	–	–	–
>100% <= 650%	–	–	27	27	–	–	7	7
> 650% <= 1250%	–	–	8	8	–	–	5	5
> 1250% / Deducted	65	–	107	172	65	–	107	172
Non-1250% Deduction	–	–	–	–	–	–	–	–
Total trading book	**65**	**–**	**224**	**289**	**65**	**–**	**121**	**186**

Banking book re-securitisations have decreased by £1.0bn to £1.9bn across both originated and invested positions in line with the reduction in BNC re-securitisation positions.

The trading book re-securitisations have increased by £0.1bn to £0.4bn in line with general market trading activities across the year.

Table 68: Aggregate amount of securitised positions retained or purchased by geography – banking book

This table presents total banking book securitised exposure type by geography, based on location of the counterparty.

Exposure Type	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
As at 31 December 2014						
Residential Mortgages	2,751	64	280	205	228	3,528
Commercial Mortgages	469	4	1	–	–	474
Credit Card Receivables	1	–	866	–	–	867
Leasing	–	–	192	–	–	192
Loans to Corporates or SMEs	1,393	3	3,057	–	–	4,453
Consumer Loans	396	487	8,613	–	–	9,496
Trade Receivables	–	–	45	–	–	45
Securitisations/Re-securitisations	5	–	808	–	–	813
Other Assets	137	2	1,834	64	–	2,037
Total	**5,152**	**560**	**15,696**	**269**	**228**	**21,905**
As at 31 December 2013 (CRD III basis)						
Residential Mortgages	3,010	64	1,847	235	400	5,556
Commercial Mortgages	522	91	–	–	2	615
Credit Card Receivables	15	–	1,009	–	–	1,024
Leasing	–	–	104	–	–	104
Loans to Corporates or SMEs	3,036	1,398	1,000	–	–	5,434
Consumer Loans	261	201	5,102	–	–	5,564
Trade Receivables	–	–	152	–	–	152
Securitisations/Re-securitisations	–	302	530	–	–	832
Other Assets	5	11	2,303	108	1	2,428
Total	**6,849**	**2,067**	**12,047**	**343**	**403**	**21,709**

The overall banking book exposure has increased marginally by £0.2bn to £21.9bn. The reduction in Loans to Corporates and SMEs is driven BNC.

Analysis of securitisation exposures

Table 69: Aggregate amount of securitised positions retained or purchased by geography – trading book

This table presents total trading book securitised exposure type by geography. The country is based on the country of operation of the issuer.

Exposure Type	United Kingdom £m	Europe £m	Americas £m	Africa and Middle East £m	Asia £m	Total £m
As at 31 December 2014						
Residential Mortgages	1,418	222	232	–	2	1,874
Commercial Mortgages	27	48	450	–	–	525
Credit Card Receivables	68	8	74	–	–	150
Leasing	–	–	–	–	–	–
Loans to Corporates or SMEs	154	21	156	–	–	331
Consumer Loans	32	22	226	–	–	280
Trade Receivables	–	–	–	–	–	–
Securitisations/Re-securitisations	139	30	9	–	–	178
Other Assets	40	6	232	–	–	278
Total	1,878	357	1,379	–	2	3,616
As at 31 December 2013 (CRD III basis)						
Residential Mortgages	1,075	60	928	–	77	2,140
Commercial Mortgages	19	27	265	–	–	311
Credit Card Receivables	23	5	75	–	–	103
Leasing	–	–	–	–	–	–
Loans to Corporates or SMEs	42	82	131	–	–	255
Consumer Loans	16	24	241	–	–	281
Trade Receivables	–	–	–	–	–	–
Securitisations/Re-securitisations	5	2	61	–	1	69
Other Assets	–	–	117	–	–	117
Total	1,180	200	1,818	–	78	3,276

The overall trading book exposure has increased by £0.3bn to £3.6bn driven by an increase in the UK and Europe across a number of trading book positions, partly offset by reductions in the Americas.

Analysis of operational risk

This section contains details of capital requirements for operational risk, expressed as RWAs, and an analysis of the Group's operational risk profile, including events which have had a significant impact in 2014.

Operational risk RWAs increased during the year

£2.3bn RWA increase

- Driven by a revised assessment of the risk attached to sales practices and market conduct in the Investment Bank, PCB and BNC businesses, taking into account risk events impacting Barclays and the wider banking industry
- Reduction in number of recorded incidents during the period and reduction in average impact

For the purposes of risk reporting, conduct risk remediation provisions have been included within this operational risk section

Conduct risk is a separate principal risk and is covered more fully on pages 163 and 164

Analysis of operational risk

Operational risk risk weighted assets

Operational risks are inherent in the Group's business activities and are typical of any large operation. It is not cost effective to attempt to eliminate all operational risks and in any event it would not be possible to do so. Small losses from operational risks are expected to occur and are accepted as part of the normal course of business. More material losses are less frequent and the Group seeks to reduce the likelihood of these in accordance with its risk appetite.

The Operational Principal Risk comprises the following Key Risks: cyber security risk, external suppliers, financial reporting, fraud, information, legal, payments, people, premises and security, taxation, technology and transaction operations. For definitions of these key risks see page 152. In order to ensure complete coverage of the potential adverse impacts on the Group arising from operational risk, the operational risk taxonomy extends beyond the operational key risks listed above to cover areas included within conduct risk.

The following table details the Group's operational risk RWAs. Barclays has approval from the PRA to calculate its operational risk capital requirement using an Advanced Measurement Approach (AMA), although recently acquired businesses are excluded from this approval. Barclays uses the Basic Indicator Approach while it transitions these areas to AMA.

See pages 151 to 154 for information on operational risk management.

Table 70: Risk weighted assets for operational risk

As at 31 December 2014	Personal & Corporate Banking £m	Barclaycard £m	Africa Banking £m	Investment Bank £m	Treasury £m	Total Core £m	Barclays Non-Core £m	Total £m
Operational Risk								
Basic Indicator Approach	**996**	**1,001**	**639**	**998**	**–**	**3,634**	**74**	**3,708**
Standardised Approach	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Advanced Measurement Approach	**15,180**	**4,504**	**4,966**	**18,623**	**1,326**	**44,599**	**8,353**	**52,952**
Total operational risk RWAs	**16,176**	**5,505**	**5,605**	**19,621**	**1,326**	**48,233**	**8,427**	**56,660**
As at 31 December 2013								
Operational Risk								
Basic Indicator Approach	820	1,221	564	1,021	–	3,626	87	3,713
Standardised Approach	–	–	–	–	–	–	–	–
Advanced Measurement Approach	14,200	4,406	6,273	17,075	1,089	43,043	7,555	50,598
Total operational risk RWAs	**15,020**	**5,627**	**6,837**	**18,096**	**1,089**	**46,669**	**7,642**	**54,311**

Barclays' operational risk RWA requirement has increased 4.3% to £56.7bn.

Barclays increased the assessments relating to sales practices and market conduct risks in the Investment Bank, Personal and Corporate Banking and BNC businesses, taking into account risk events impacting Barclays and the wider banking industry. This was partially offset by decreasing value of the ZAR from 2013 to 2014, reducing the Sterling value of the risks in the South African business.

Analysis of operational risk

Operational risk profile

During 2014[a], there was a reduction in total operational risk losses. Total number of recorded incidents fell due to a reduction in the number of significant loss events for external fraud and execution delivery and process management.

Operational risk losses in 2014 were materially comprised of further provisions for PPI (£1,270m) and a provision for ongoing investigations and litigation relating to Foreign Exchange (£1,250m).

Within operational risk a high proportion of risk events have a low associated financial cost and a very small proportion of operational risk events will have a material impact on the financial results of the Group. In 2014 85.3% of the Group's net reportable operational risk events had a loss value of £50,000 or less (2013: 81.8%) and accounted for only 1.6% (2013: 1.8%) of the Group's total net loss impact.

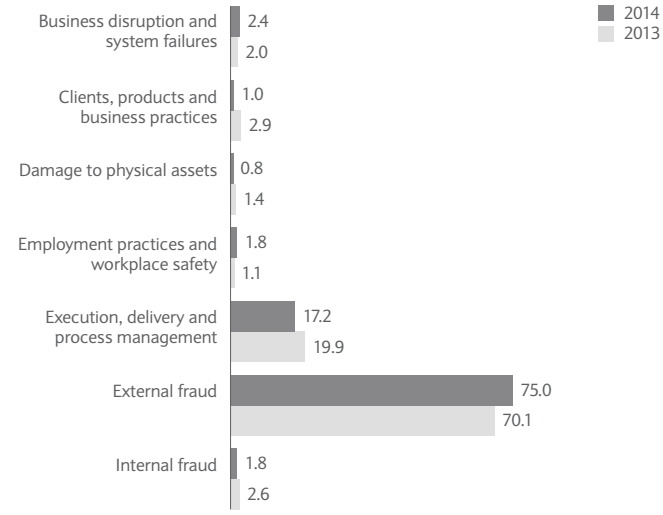
The analysis below presents the Group's operational risk events by category:

- The proportion of losses by amount within the clients, products and business practices category remains the driver of the operational risk profile at 95.1% (2013: 85.2%) and is heavily impacted by provisions for PPI, and the ongoing investigations and litigation into Foreign Exchange.
- Execution, delivery and process management impacts reduced to 2.9% in 2014 (2013: 10.3%). These events are typical of the banking industry as a whole where high volumes of transactions are processed on a daily basis. These are often fully or partially recovered, resulting in low value net losses.
- External fraud (75.0%) is the category with the highest frequency of events where high volume, low value events are also consistent with industry experience, driven by debit and credit card fraud. The proportion of events of this type has increased although the actual volume has in fact decreased; this is due to the greater reduction in the volume of execution, delivery and process management events.

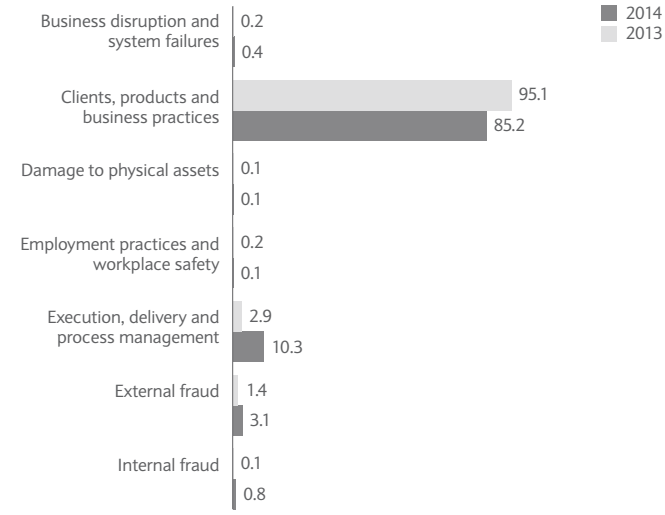
The Group's operational risk profile is informed by bottom-up risk assessments undertaken by each business unit and top-down qualitative review from the Operational Risk & Control Committee. External fraud and technology are highlighted as key operational risk exposures. External fraud has increased driven by the higher number of fraud events, particularly in credit card portfolios, and business growth, whereas for technology there is an ongoing programme of work to improve controls, through efficiency and automation, and a focus on infrastructure resilience. Cyber security risk continues to be an area of attention given the increasing sophistication and scope of potential cyber-attack. Risks to technology and cyber security change rapidly and require continued focus and investment.

For further information see management of operational risk section (pages 151 to 154).

Operational risk events by risk category
% of total risk events by count



Operational risk events by risk category
% of total risk events by value



Note
a During 2014 the Group moved its operational risk reporting of events to align with the financial impact of the event rather than being based on date of sign-off in the system of record. 2013 figures have been re-stated on this basis and due to timing difference between date of financial impact and recording of events some movement of prior year events will be expected.

Barclays' approach to managing risks
Contents

Risk management strategy, governance and risk culture

In this section we describe the approaches and strategies for managing risks at Barclays. It contains information on how risk management functions are organised, how they ensure their independence and foster a sound risk culture throughout the organisation.

- A discussion of how our risk management strategy is designed to foster a strong risk culture is contained on page 100
- A governance structure, encompassing the organisation of the function as well as executive and Board committees, supports the continued application of the ERMF. This is discussed on pages 100 to 103
- The Enterprise wide Risk Management Framework (ERMF) sets out the tools, techniques and organisational arrangements to ensure all material risks are identified and understood (see pages 103 to 105)
- Pages 106 to 109 describe group-wide risk management tools that support risk management, ExCo and the Board in discharging their responsibilities, and how they are applied in the strategic planning cycle.

The following pages provide a comprehensive overview of the Group's approach to risk management and more specific information on policies that the Group determines to be of particular significance in the current operating environment.

This section outlines the Group's strategy for managing risk and how risk culture has been developed to ensure that there is a set of objectives and practices which are shared across the Group. It provides details of the Group's governance, how responsibilities are assigned and the committee structure. The last section provides an insight into how risk management is part of the strategy setting process, including the planning process, the setting of risk appetite and stress testing across the Group.

Risk Management Strategy

The Group has clear risk management objectives and a well-established strategy to deliver them, through core risk management processes.

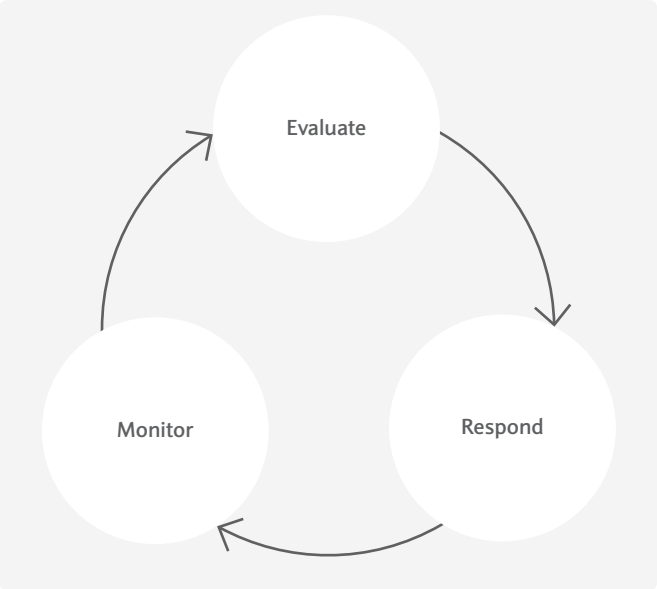
At a strategic level, the risk management objectives are to:

- Identify the Group's significant risks;
- Formulate the Group's risk appetite and ensure that business profile and plans are consistent with it;
- Optimise risk/return decisions by taking them as close as possible to the business, while establishing strong and independent review and challenge structures;
- Ensure that business growth plans are properly supported by effective risk infrastructure;
- Manage risk profile to ensure that specific financial deliverables remain possible under a range of adverse business conditions; and
- Help executives improve the control and co-ordination of risk taking across the business.

The aim of the risk management process is to provide a structured, practical and easily understood set of three steps – Evaluate, Respond and Monitor (the E-R-M process) – that enables management to identify and assess those risks, determine the appropriate risk response, and then monitor the effectiveness of the risk response and changes to the risk profile

- **Evaluate:** Risk evaluation must be carried out by those individuals, teams and departments that are best placed to identify and assess the potential risks, and include those responsible for delivering the objectives under review
- **Respond:** The appropriate risk response effectively and efficiently ensures that risks are kept within appetite, which is the level of risk that the Group is prepared to accept while pursuing its business strategy. There are three types of response: i) accept the risk but take the necessary mitigating actions such as using risk controls; ii) stop the existing activity/do not start the proposed activity; or iii) continue the activity but lay off risks to another party e.g. insurance
- **Monitor:** Once risks have been identified and measured, and controls put in place, progress towards objectives must be tracked. Monitoring must be ongoing and can prompt re-evaluation of the risks and/or changes in responses. Monitoring must be carried out proactively and is wider than just "reporting" and includes ensuring risks are being maintained within risk appetite and checking that controls are functioning as intended and remain fit for purpose.

Barclays risk management strategy



The process is orientated around material risks impacting delivery of objectives, and is used to promote an efficient and effective approach to risk management. This three step risk management process:

- Can be applied to every objective at every level in the bank, both top-down or bottom-up;
- Is embedded into the business decision making process;
- Guides the Group's response to changes in the external or internal environment in which existing activities are conducted; and
- Involves all staff and all three lines of defence (see pages 104-105).

Governance structure

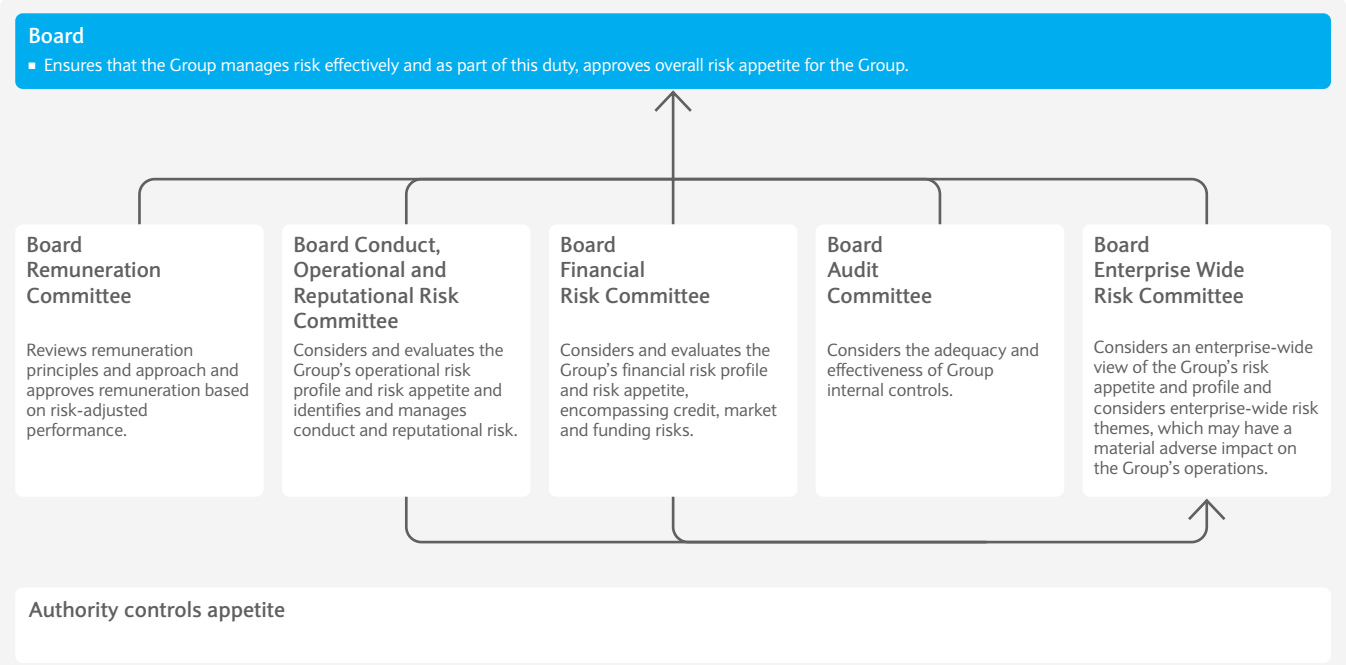
Risk exists when the outcome of taking a particular decision or course of action is uncertain and could potentially impact whether, or how well, the Group delivers on its objectives.

The Group faces risks throughout its business, every day, in everything it does. Some risks are taken after appropriate consideration – like lending money to a customer. Other risks may arise from unintended consequences of internal actions, for example an IT system failure or poor sales practices. Finally, some risks are the result of events outside the Group but which impact its business – such as major exposure through trading or lending to a market counterparty which later fails.

All employees must play their part in the Group's risk management, regardless of position, function or location. All employees are required to be familiar with risk management policies that are relevant to their activities, know how to escalate actual or potential risk issues, and have a role-appropriate level of awareness of the ERMF, risk management process and governance arrangements.

Risk management strategy, governance and risk culture

Board oversight and flow of risk related information



There are four key Board-level committees which review and monitor risk across the Group. These are: The Board, the Board Enterprise Wide Risk Committee, the Board Financial Risk Committee and the Board Conduct, Operational and Reputational Risk Committee.

The Board

One of the Board's (Board of Directors of Barclays PLC) responsibilities is the approval of risk appetite (see the Risk Management and Strategy section on page 106), which is the level of risk the Group chooses to take in pursuit of its business objectives. The Chief Risk Officer regularly presents a report to the Board summarising developments in the risk environment and performance trends in the key portfolios. The Board is also responsible for the Internal Control and Assurance Framework (Group Control Framework). It oversees the management of the most significant risks through the regular review of risk exposures and related key controls. Executive management responsibilities relating to this are set out in the EMRF.

The Board Enterprise Wide Risk Committee (BEWRC)

The BEWRC is a committee of the Board, from which it derives its authority and to which it regularly reports. The principal purpose of the Committee is to review, on behalf of the Board, management's recommendations on risk, in particular:

- Consider and recommend to the Board the Group's overall risk appetite;
- Review, on behalf of the Board, the Group's overall risk profile;
- Satisfy itself on the design and completeness of the Group's ERMF, including the Principal Risk categories; and
- Consider key enterprise wide risk themes.

BEWRC membership comprises the Group Chairman and the Chairmen of the Board Audit Committee, Board Conduct, Operational and Reputational Risk Committee, Board Financial Risk Committee and Board Remuneration Committee. The Group Chief Executive Officer (CEO), Group Chief Risk Officer (CRO), Group Finance Director, Head of Compliance, General Counsel and Chief Internal Auditor are mandatory attendees.

The Board Financial Risk Committee (BFRC)

The BFRC monitors the Group's risk profile against the agreed financial appetite. Where actual performance differs from expectations, the actions being taken by management are reviewed to ensure that the BFRC is comfortable with them. After each meeting, the Chair of the BFRC prepares a report for the next meeting of the Board. All members are non-executive Directors. The Finance Director and the Chief Risk Officer attend each meeting as a matter of course.

The BFRC receives regular and comprehensive reports on risk methodologies and the Group's risk profile including the key issues affecting each business portfolio and forward risk trends. The Committee also commissions in-depth analyses of significant risk topics, which are presented by the CRO or senior risk managers in the businesses. The Chair of the Committee prepares a statement each year on its activities.

The Board Conduct, Operational and Reputational Risk Committee (BCORR)

The BCORR was created to strengthen the Board-level governance over conduct risk and reputation matters. It reviews the effectiveness of the processes by which the Group identifies and manages conduct and reputation risk and considers whether business decisions will compromise the Group's ethical policies or core business beliefs and values. It also considers the Group's risk appetite statement for operational risk and evaluates the Group's operational risk profile and operational risk monitoring.

In addition, the Board Audit and Board Remuneration Committees receive regular risk reports to assist them in the undertaking of their duties.

The Board Audit Committee (BAC)

The BAC receives, among other reports, quarterly reports on material control issues of significance, quarterly papers on accounting judgments (including impairment), and a half-yearly review of the adequacy of impairment allowances, which it reviews relative to the risk inherent in the portfolios, the business environment, the Group's policies and methodologies and the performance trends of peer banks. The Chair of the BAC also sits on the BFRC and BCORR.

The Board Remuneration Committee (RemCo)
The RemCo receives a detailed report on risk management performance from the BFRC, regular updates on the risk profile and proposals on an ex-ante risk adjustment. These inputs are considered in the setting of performance incentives.

Summaries of the relevant business, professional and risk management experience of the Directors of the Board are given in the Board of Directors section on pages 34 to 36 of the 2014 Annual Report. The terms of reference and additional details on membership and activities for each of the principal Board Committees are available from the Corporate Governance section at: www.barclays.com/corporategovernance

The Enterprise Wide Risk Management Committee (EWRMC) was established by, and derives its authority from, the CRO. It supports the CRO in the provision of oversight and challenge of the systems and controls in respect of risk management, particularly:

- Review, challenge and recommend risk appetite;
- Monitor risk profile against risk appetite; and
- Review the design and completeness of the ERMF and Principal Risk categories.

EWRMC membership includes the CRO, CEO, Group Finance Director, Group General Counsel, and Head of Compliance.

The CRO is a member of the Executive Committee and has overall day to day accountability for risk management under delegated authority from the CEO. While the CEO is accountable for proposing a risk appetite that underpins the strategic plan to the Board for approval, the CRO is responsible for providing oversight, advice and challenge to the CEO, and preparing and recommending the Group's risk appetite to the CEO and the Board. Risk appetite therefore sets the 'tone from the top' and provides a basis for ongoing dialogue between management and Board level around the Group's current and evolving risk profile.

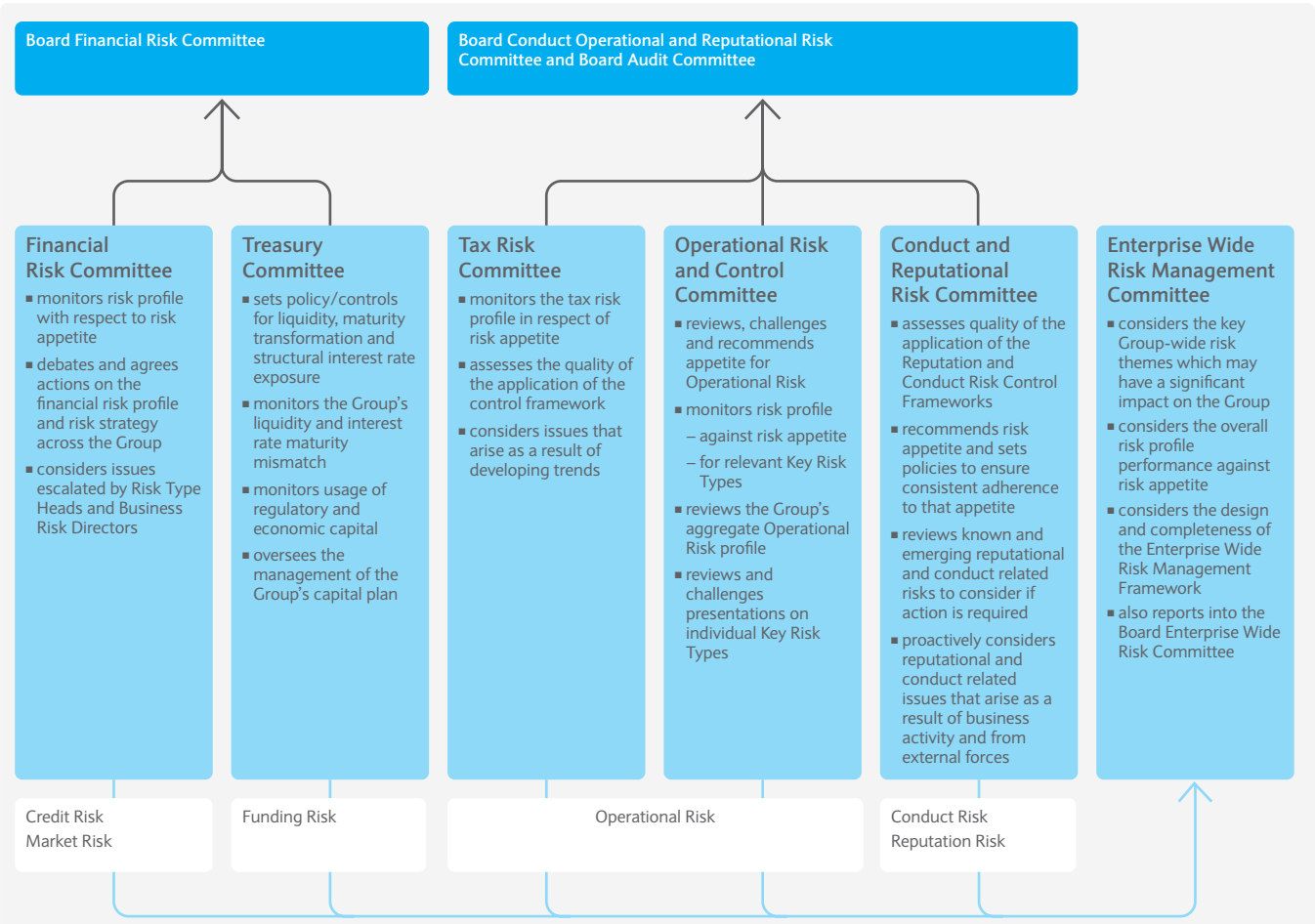
The CRO manages the independent risk function and chairs the Financial Risk Committee (FRC) and the Operational Risk and Control Committee (ORCC), which monitor the Group's financial and non-financial risk profile relative to established risk appetite. Reporting to the CRO, and working in the risk function, are risk type heads for financial risk, operational risk and financial crime. The risk type heads are responsible for establishing a Group-wide framework for oversight of the relevant risks and controls. The risk type teams liaise with each business as part of the monitoring and management processes.

In addition, each business has an embedded risk management function, headed by a Business Chief Risk Officer (BCRO). BCROs and their teams are responsible for assisting business heads in the identification and management of their business risk profiles and for implementing appropriate controls. These teams also assist Central Risk in the formulation of Group policies and their implementation across the businesses. The business risk directors report jointly to their respective business heads and to the CRO.

The Risk Executive Committee is responsible for the effectiveness and efficiency of risk management and embedding a strong risk culture, approval of the Group's risk governance framework, and agreement and endorsement of the overall infrastructure strategy for the risk function. It is also the senior decision making forum for the risk function excluding matters relating to the risk profile. It is chaired by the CRO with a membership comprising senior risk management.

The CEO must consult the Chairman of the BFRC in respect of the CRO's performance appraisal and compensation as well as all appointments to or departures from the role.

Reporting and control



The Group Treasurer heads the Group Treasury function and chairs the Treasury Committee which:

- Manages the Group's liquidity, maturity transformation and structural interest rate exposure through the setting of policies and controls;
- Monitors the Group's liquidity and interest rate maturity mismatch;
- Monitors usage of regulatory and economic capital; and
- Has oversight of the management of the Group's capital plan.

The Head of Compliance chairs the Conduct and Reputation Committee which assesses quality of the application of the Reputation and Conduct Risk Control Frameworks. It also recommends risk appetite, sets policies to ensure consistent adherence to that appetite, and reviews known and emerging reputational and conduct related risks to consider if action is required.

Barclays' risk culture – enabling the 'Go-To' bank

In every area of the Group's activities, outcomes of decisions or actions may be uncertain and could potentially impact whether, or how well, the Group delivers against its objectives. Risk management, therefore, plays a significant role in the Group achieving its goals and in turning Barclays into the 'Go-To' bank.

Risk culture is the set of objectives and practices, shared across the organisation, that drive and govern risk management. The main elements of risk culture at Barclays are broadly aligned with the Financial Stability Board's guidance[a]:

- **Tone from the top:** our purpose, value and behaviours, the Barclays Way (global code of conduct), and global induction processes all support the embedding of risk culture and values by setting a consistently clear, shared message to all colleagues;
- **Accountability:** the ERMF and key risk frameworks set out clear responsibilities, as detailed above;
- **Effective communications and challenge:** clearly defined and independent control functions (second line of defence) and internal audit (third line of defence), enhanced training on risk and citizenship, and channels for escalation and whistle blowing enable the effective control of risks at all levels; and
- **Incentives:** the implementation of the balanced scorecard, and the risk and controls objective within the performance and promotion process have helped to align incentives with a sound risk culture.

Improving our risk culture

In 2013, the Salz Review[b] issued recommendations on how to improve the culture of the Group with the result that Barclays undertook a review and has taken actions to improve its risk culture (the Transform Risk initiative). The Transform programme has provided the opportunity to extend best practices to more functions and business units, and in other cases identify needed updates or improvements. This work is captured in the ERMF that has been deployed across the organisation and provides a common set of principles and standards that will form the fundamental elements of the risk culture.

During 2014 a step-change in defining, implementing and deepening our risk culture has continued. This has included the embedding of:

- The ERMF;
- The Barclays Way;
- Leadership curriculum; and
- Global induction.

Within the independent risk function, a number of global shared functions exist to serve the wider risk function, such as risk analytics, credit sanctioning, financial crime, and model validation. Progress has also been made in re-engineering a number of processes to improve efficiency and allow risk managers to focus on their core responsibilities.

During 2015 the effect of these measures will be more systematically monitored using a range of metrics to assess the impact of these changes on the Group's risk culture. These will be reported to the Board regularly. Future areas for development also include further embedding of the ERMF and the Barclays Way, the further deepening of risk appetite implementation for non-financial risks, and continuing to drive a culture of challenge and 'willingness to escalate' outside of whistle blowing channels.

Risk Appetite and the 'Tone from the top'

Communicating and enforcing risk appetite in all businesses creates a common understanding and fosters debate around what types of risks are acceptable, and what levels are appropriate at business and Group level.

To develop a consistently strong risk culture across the Group, clear statements have been communicated as to the Group risk appetite for all risk types and further embedded adherence to Group-wide appetite into all businesses. In particular, risk appetite:

- Articulates the types and level of risk we are willing to take and why, to enable specific risk taking activities. It also specifies those risks the Group seeks to avoid and why, to constrain specific risk taking activities;
- Will be embedded within key decision-making processes including business planning, mergers and acquisitions, new product approvals and business change initiatives;
- Provides a framework for performance management and disciplinary consequences in cases of breach;
- Is implemented under the direct leadership of the CEO, who is responsible for leading, managing and organising executive management to achieve execution of the strategy and business plans in line with risk appetite; and
- Is owned by the Board.

See risk appetite on page 106 for more information.

Supporting colleagues to manage risk – in the right way

By supporting colleagues to manage risk in the right way, the Group seeks to ensure that all risk managers share the Barclays Values and a common understanding of the role that risk management plays in their promotion like:

- Risk management capability and ability to act in a risk aware manner forms part of the assessment process for all new and promotion candidates globally;
- Management of risk and control is assessed as part of the annual performance appraisal process for all colleagues globally. Positive risk management behaviours will be rewarded;
- The Being Barclays global induction programme supports new colleagues in understanding the importance of risk to how the Group does business and the link to the Barclays values; and
- Leadership master classes cover the building, sustaining and supporting a trustworthy organisation and are offered to colleagues globally.

Learning from our mistakes

Learning lessons from mistakes is central to the Group's culture and values, demonstrating a commitment to excellence, service and stewardship that is fulfilled through the integrity with which the Group operates and taking accountability for failure as well as success. The Group seeks to learn lessons across the Group on a continuous basis to support achievement of strategic objectives; operational excellence and fulfilment of commitments to stakeholders, including colleagues, customers, shareholders and regulators.

Notes
a "Guidance on Supervisory Interaction with Financial Institutions on Risk Culture (A Framework for Assessing Risk Culture)" – http://www.financialstabilityboard.org/publications/140407.htm
b An independent review by Anthony Salz, commissioned by the Board

In November 2014, Barclays published a Group Lessons Learnt Standard as part of the ERMF, setting out requirements for completing Lessons Learnt Assessments in response to significant events. The Lessons Learnt Standard builds on the process established for operational risk in 2012 and fulfils the Group's Salz commitments by ensuring a consistent and effective approach applicable to all Principal Risks. The approach to lessons learnt is directly aligned to the three lines of defence model (see below), with businesses and functions accountable for undertaking lessons learnt assessments; principal and key risk officers providing input, oversight and challenge; and independent review by internal audit.

Core components of the Lessons Learnt Standard include:

- Defined triggers for when lessons learnt assessments must be completed;
- Requirements and guidance for root cause analysis to identify the causes of events within the Group;
- Templates to ensure conclusions are reported consistently throughout management committees;
- A central system to record completed lessons learnt assessments and to facilitate sharing across the Group; and
- The Standard will be further embedded and integrated within the Group's Risk Management framework and governance processes during 2015.

The Standard will be further embedded and integrated within the Group's risk management framework and governance processes during 2015.

Risk governance and assigning responsibilities

Responsibility for risk management resides at all levels of the Group, from the Board and the Executive Committee down through the organisation to each business manager and risk specialist. These responsibilities are distributed so that risk/return decisions are: taken at the most appropriate level; as close as possible to the business; and, subject to robust and effective review and challenge. The responsibilities for effective review and challenges resides at all levels.

The ERMF sets out the activities, tools, techniques and organisational arrangements to ensure that all material risks are identified and understood, and that appropriate responses are in place to protect the Group and prevent detriment to its customers, colleagues or community, enabling the Group to meets its goals, and enhance its ability to respond to new opportunities.

It covers those risks incurred by the Group that are foreseeable, continuous, and sufficiently material to merit establishing specific Group-wide control frameworks. These are known as Key Risks.

The ERMF is intended to be widely read with the aim of articulating a clear, consistent, comprehensive and effective approach for the management of all risks within the Group and creating the proper context for setting standards and establishing the right practices throughout the Group. It sets out a philosophy and approach that is applicable to all colleagues and to all types of risk. It sets the roles and responsibilities of all employees with respect to risk management with specific requirements for key individuals, including the CRO and CEO, and the overall governance framework that will oversee its effective operation. See risk culture on page 103 for more information.

The ERMF supports risk management and control by ensuring that there is a:

- Sustainable and consistent implementation of the three lines of defence across all businesses and functions;
- Framework for the management of Principal Risks;
- Consistent application of risk appetite across all Principal Risks; and
- Clear and simple policy hierarchy.

Three lines of defence

The enterprise risk management process is the 'defence' and organising businesses and functions into three 'lines' enhances the E-R-M process by formalising independence and challenge, while still promoting collaboration and the flow of information between all areas. The three lines of defence operating model enables the Group to separate risk management activities:

First line: Own and take risk, and implement controls

First line activities are characterised by:

- Ownership of and direct responsibility for the Group's returns or elements of its results;
- Ownership of major operations, systems and processes fundamental to the operation of the bank; and
- Direct linkage of objective setting, performance assessment and reward to P&L performance.

With respect to risk management the first line responsibilities include:

- Taking primary accountability for risk identification, ownership, management and control (including performance of portfolios, trading positions, operational risks etc.) within approved mandate, as documented under the Key Risk Control Frameworks, including embedding a supportive risk culture;
- Collaborating with second line on implementing and improving risk management processes and controls;
- Monitoring the effectiveness of risk controls and the risk profile compared to the approved risk appetite; and
- Maintaining an effective control environment across all risks, processes and operations arising from the business, including implementing standards to meet Group policies.

Second Line: Oversee and challenge the first line, provide second line risk management activity and support controls

Second line activities are characterised by:

- Oversight, monitoring and challenge of the first line of defence activities;
- Design, ownership or operation of Key Risk Control Frameworks impacting the activities of the first line of defence;
- Operation of certain second line risk management activities (e.g. work-outs); and
- No direct linkage of objective setting, performance assessment and reward to revenue (measures related to mitigation of losses and balancing risk and reward are permissible).

With respect to risk management the second line of defence responsibilities include:

- Defining the ERMF;
- Establishing the control environments for the Key Risks, including Key Risk Control Frameworks, policies, and standards;
- Defining delegated discretions and set limits within the control frameworks to empower risk taking by the first line;
- Assisting in the direction of the portfolio to achieve performance against risk appetite;
- May define and operate approval processes for certain decisions within the second line to protect the Group from material risks;
- Communicating, educating and advising the first line on their understanding of the risk framework and its requirements;
- Collaborating with the first line to support business growth and drive an appropriate balance between risk and reward without diminishing the independence from the first line; and
- Reporting on the effectiveness of the risk and control environment to executive management and Board committees.

Third line: Provide assurance that the E-R-M process is fit-for-purpose, and that it is being carried out as intended
Third line activities are characterised by:

- Providing independent and timely assurance to the Board and Executive Management over the effectiveness of governance, risk management and control

With respect to risk management the third line of defence responsibilities include:

- Assessing the effectiveness of risk management and risk mitigation in the context of the current and expected business environment; and
- Acting independently and objectively.

Principal Risks

A Principal Risk comprises individual Key Risk Types to allow for more granular analysis of the associated risk. As at 31 December 2014 the six Principal Risks were: i) Credit; ii) Market; iii) Funding; iv) Operational; v) Conduct; and vi) Reputation. For 2015, Reputation Risk will be recognised as a Key Risk within Conduct Risk given the close alignment between them and the fact that as separate Principal Risks they had a common Principal Risk Officer.

Risk management responsibilities are laid out in the ERMF, which covers the categories of risk in which the Group has its most significant actual or potential risk exposures. The ERMF: creates clear ownership and accountability; ensures the Group's most significant risk exposures are understood and managed in accordance with agreed risk appetite and risk tolerances; and ensures regular reporting of both risk exposures and the operating effectiveness of controls.

Each Key Risk is owned by a senior individual known as the Key Risk Officer who is responsible for developing a risk appetite statement and overseeing and managing the risk in line with the ERMF. This includes the documentation, communication and maintenance of a risk control framework which makes clear, for every business across the firm, the mandated control requirements in managing exposures to that Key Risk. These control requirements are given further specification, according to the business or risk type, to provide a complete and appropriate system of internal control.

Business function heads are responsible for obtaining ongoing assurance that the key controls they have put in place to manage the risks to their business objectives are operating effectively. Reviews are undertaken on a six-monthly basis and support the regulatory requirement for the Group to make an annual statement about its system of internal controls. At the business level executive management hold specific Business Risk Oversight Meetings to monitor all Principal Risks.

Key Risk Officers report their assessments of the risk exposure and control effectiveness to Group-level oversight committees and their assessments form the basis of the reports that go to the:

Board Financial Risk Committee:

- Financial Risk Committee has oversight of Credit and Market Risks
- Treasury Committee has oversight of Funding Risk

Board Conduct, Operational and Reputational Risk Committee:

- Operational Risk and Control Committee has oversight of all Operational Risk types, with the exception of Tax Risk, which is primarily overseen by the Tax Risk Committee
- Conduct and Reputational Risk Committee has oversight of the Conduct and Reputation Risks

Each Key Risk Officer also undertakes an annual programme of risk-based conformance reviews. A conformance review is undertaken by individuals who are independent of the management team running the operations and assesses the quality of conformance testing.

Conformance and Assurance

Conformance and assurance is undertaken to assess the control environment:

Conformance: Activities undertaken to check the degree to which defined processes are being followed.

- Conformance testing is a planned, systematic and documented programme of checking, that has the objective of providing evidence that controls have been operated in accordance with documented processes. Testing results provide management with a view of the effectiveness of the control environment supporting their operations
- A conformance review is a planned, risk based programme of activity to assess the quality of conformance testing, undertaken by individuals who are independent of the management team running the operations. Results of the review enable management to assess how much assurance they can place on the results of conformance testing. Conformance testing and conformance reviews may also identify opportunities for improvement to policies and standards

Assurance: Undertaken to independently assess the ERMF, which includes testing specific elements of the control environment documented in standards and checking that conformance activities are reliable, to provide the Board confidence in the risk and control framework.

In 2014, the Group created the Credit Risk Review Group (CRRG) which provides an independent review and monitoring of the quality and condition of all the wholesale loan and derivative portfolios through a review of the overall credit sanctioning process. CRRG has a mandate from the CRO and has direct access to him and the BFRC.

Internal Audit is responsible for the independent review of risk management and the control environment. Its objective is to provide reliable, valued and timely assurance to the Board and executive management over the effectiveness of controls, mitigating current and evolving high risks and in so doing enhancing the controls culture within the Group. The BAC reviews and approves Internal Audit's plans and resources, and evaluates the effectiveness of Internal Audit. An assessment by independent external advisers is also carried out periodically.

Effectiveness of risk management arrangements

The embedding of the ERMF, that governs all risk management arrangements in the Group, is monitored by executive and board committees as described above. The ERMF and its component key risks are subject to conformance and assurance reviews that confirm its effectiveness or identify issues to be mitigated. Management and the Board are satisfied that these arrangements are appropriate given the risk profile of the Group.

Management of model risk

Model risk is the risk of suffering adverse consequences from decisions based on incorrect or misused model outputs and reports and as a consequence its management has become an increasingly important area of focus for the Group.

Model risk is inherent in each of the key risks where models are used for measurement or management and is, therefore, managed as part of each individual key risk control framework and supported by the Group Model Risk Policy (GMRP) and relevant standards.

Model risk is managed by a number of activities, including:

- Ensuring that models are identified per the GMRP definition, across businesses and recorded in the Group Models Database, the Group-wide model inventory;
- Ensuring that every model has a model owner who is overall responsible for the model, and drives the development/maintenance of the model by a qualified model developer;
- Ensuring that every model is subject to technical validation by the Independent Validation Unit (IVU) as required by GMRP;
- Ensuring that every model is approved by appropriately senior and knowledgeable Risk individuals in the organisation;
- Periodic model risk reporting to the senior management and the Board; and
- Internal Audit provides independent challenge of model risk management through business line and thematic audits.

The Executive Models Committee (EMC) fulfils the specific requirement of approving the Group's most material (A*/High) models; the EMC decisions are based on business reviews and the associated IVU validations for these models. EMC is chaired by the CRO and has as members the Group Finance Director and the Head of Financial Risk.

The EMC reports into the EWRMC.

Group-wide risk management tools

To support the Group-wide management of risks that the Group faces, the Board make use of Risk Appetite and Stress Testing in the setting of the Group's strategy.

Risk Appetite
Risk appetite is defined as the level of risk that the Group is prepared to accept while pursuing its business strategy, recognising a range of possible outcomes as business plans are implemented.

Risk appetite sets the 'tone from the top' and provides a basis for ongoing dialogue between management and Board with respect to the Group's current and evolving risk profile, allowing strategic and financial decisions to be made on an informed basis.

The Risk Appetite Framework is intended to achieve the following objectives:

- Articulate the risks the Group is willing to take and why, to enable specific risk taking activities; and articulate those risks to avoid and why, to constrain specific risk taking activities;
- Consider all Principal and Key risks both individually and, where appropriate, in aggregate;
- Consistently communicate the acceptable level of risk for different risk types; this may be expressed in financial or non-financial terms, but must enable measurement and effective monitoring;
- Describe agreed parameters for Group performance under varying levels of financial stress with respect to
  - Profitability, loss and return metrics;
  - The ability to continue to pay a dividend; and
- Be embedded in key decision-making processes including mergers and acquisitions, new product approvals and business change initiatives.

Unapproved excesses of risk appetite and/or limits will result in performance management and disciplinary consequences.

The Risk Appetite Framework consists of top-down financial volatility and bottom-up mandate and scale, which are further detailed below.

Financial volatility
Financial volatility is defined as the level of potential deviation from expected financial performance that the Group is prepared to sustain at relevant points on the risk profile. When setting appetite, management and the Board articulate the Group's strategy and summarise objectives in terms of key financial metrics. Top-down appetite is quantified through an array of financial performance and capital metrics which are reviewed by the Board on an annual basis, summarized in the table below.

Measure relevant to strategy and risk	Link between strategy and risk profile
Profit before tax, Return on equity, Return on RWAs	Fundamental economic and business indicators, which best describes shareholder focus in terms of profitability and ability to use capital resources efficiently.
Loan loss rate (LLR)	Describes the credit risk profile and whether impairment is within appetite.
Common Tier 1 and leverage ratios	Monitors capital adequacy in relation to capital plan.
Dividends	Measures the risks of being able to continue paying appropriate dividends.

The strategic metrics in the table above are set at three levels:

- Through-the-cycle: the average losses based on measurements over many years;
- 1 in 7 (moderate) loss: the worst level of losses out of a random sample of 7 years; and
- 1 in 25 (severe) loss: the worst level of losses out of a random sample of 25 years.

These scenarios are defined through a level of probability of occurrence rather than through a specific set of economic variables like in stress tests. The potentially larger but increasingly less likely levels of loss are illustrated in the risk appetite concepts chart opposite.

Since the level of loss at any given probability is dependent on the portfolio of exposures in each business, the statistical measurement for each key risk category gives the Group clearer sight and better control of risk-taking throughout the enterprise. Specifically, this framework enables it to:

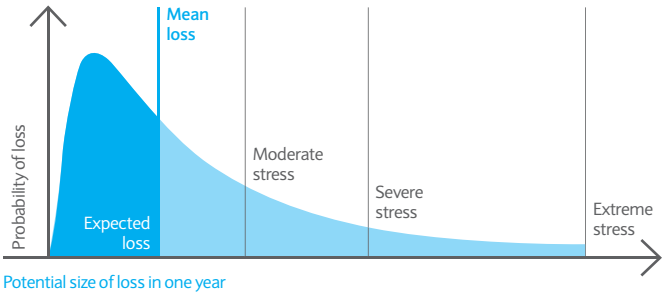
- Improve management confidence and debate regarding the Group's risk profile;
- Re-balance the risk profile of the Medium Term Plan (MTP) where breaches are indicated, thereby achieving a superior risk-return profile;
- Identify unused risk capacity, and thus highlight the need to identify further profitable opportunities; and
- Improve executive management control and co-ordination of risk-taking across businesses.

In summary, the levels of loss represent the risk tolerance of the Group in terms of its key objectives. These objectives act as constraints on risk performance and imply maximum levels of acceptable losses.

Mandate and scale

The second element to the setting of risk appetite is an extensive system of mandate and scale limits, which is a risk management approach that seeks to formally review and control business activities to ensure that they are within mandate (i.e. aligned with expectations), and are of an appropriate scale (relative to the risk and reward of the underlying activities). This is achieved by using limits and triggers to avoid concentrations which would be out of line with expectations, and which may lead to unexpected losses of a scale that would be detrimental to the stability of the relevant business line or the Group.

Risk appetite concepts (diagram not to scale)



Potential size of loss in one year

For example, for commercial property finance and construction portfolios, a comprehensive series of limits are in place to control exposure within each business and geographic sector. To ensure that limits are aligned to the underlying risk characteristics, the mandate and scale limits differentiate between types of exposure. There are, for example, individual limits for property investment and property development.

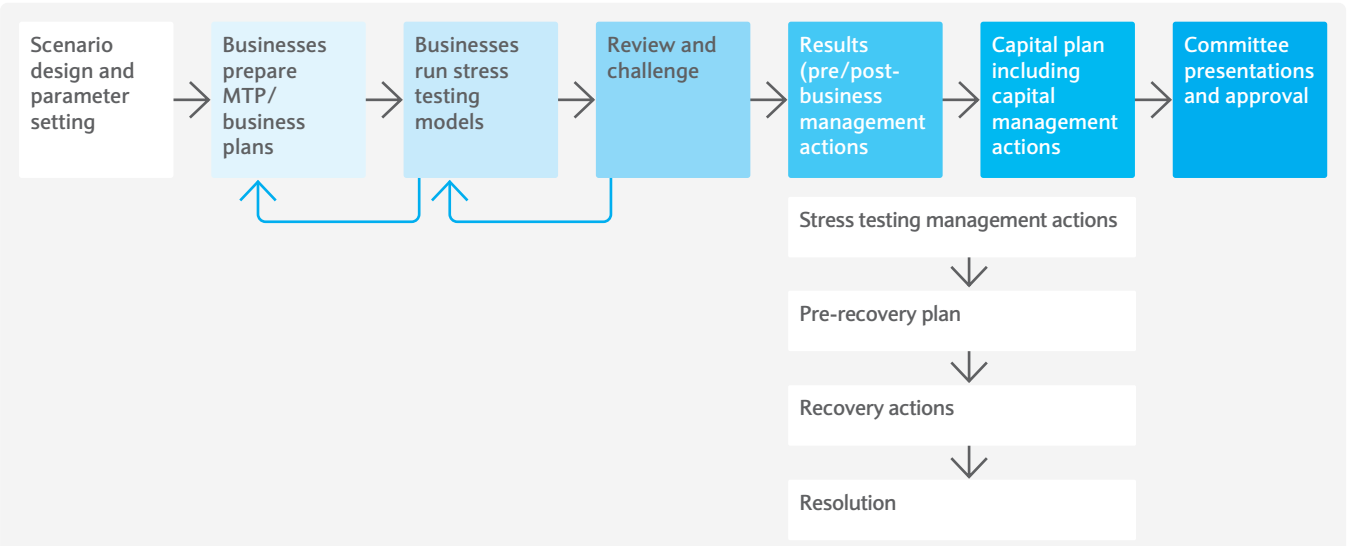
The mandate and scale framework is used to:

- Limit concentration risk;
- Keep business activities within Group and individual business mandate;
- Ensure activities remain of an appropriate scale relative to the underlying risk and reward; and
- Ensure risk-taking is supported by appropriate expertise and capabilities.

As well as Group-level mandate and scale limits, further limits are set by risk managers within each business, covering particular portfolios.

Stress testing

Group-wide stress tests are an integral part of the MTP process and annual review of risk appetite. They aim to ensure that the Group's financial position and risk profile provide sufficient resilience to withstand the impact of severe economic stress. The Group-wide stress testing process is supported by an overarching policy which outlines the overall framework with clearly defined roles and responsibilities across businesses and Central functions. The following diagram outlines the key steps in the Group-wide stress testing process, which are described below.



The Group-wide stress testing process begins with a detailed scenario setting process, with the FRC and BFRC agreeing the range of scenarios to be tested. The scenarios are designed to be severe but plausible, and relevant to the business. A wide range of macroeconomic parameters are defined (such as GDP, unemployment, house prices, FX and interest rates) which allows the impact of the scenarios across the wide range of products and portfolios to be assessed across the Group.

Businesses prepare detailed MTP business plans which form the baseline for the stress test assessment. The stress test process is detailed and comprehensive, using bottom-up analysis across all of our businesses including both on- and off-balance sheet positions, and combines running statistical models with expert judgement. An overview of the stress testing approach by Principal Risk is provided in the table below. As part of their stress test assessment, businesses are also required to identify potential management actions that could be taken to mitigate the impact of stress and document these within their results.

There is robust governance in place with detailed review of stress testing methodology and results both within businesses (including sign-off by business CROs and CFOs) and by Central functions.

The businesses stress test results are consolidated to form a Group view which is used for tax analysis and by Treasury to assess the stress impact on the Group capital plans. For the latter, capital management actions such as reducing dividends or redeeming certain capital instruments may be considered. The Group also maintains recovery plans which take into consideration actions to facilitate recovery from severe stress or an orderly resolution. These actions are additional to those included in the Group-wide stress testing results.

The overall stress testing results of the Group are presented for review and approval by the FRC and BFRC, and are also shared with the Treasury Committee and the Board.

Summary of methodologies for Group-wide stress testing by risk type:

Principal Risk	Stress testing approach
Credit risk	▪ **Credit risk impairments:** For retail portfolios businesses use regression models to establish a relationship between arrears movements and key macroeconomic parameters such as interest rates and unemployment, incorporating roll-rate analysis to estimate stressed levels of arrears by portfolio. In addition, combination of house price reductions and increased customer drawdowns for revolving facilities leads to higher LGD which also contributes to increased impairment levels. For wholesale portfolios the stress shocks on credit risk drivers (PDs, LGDs and EADs) are primarily calibrated using historical and expected relationships with key macro-economic parameters such as GDP, inflation and interest rates. ▪ The scenarios include market risk shocks that are applied to determine the market value under stress of contracts that give rise to CCR. Counterparty losses, including from changes to the Credit Valuation Adjustment and from defaults, are modelled based on the impact of these shocks as well as using stressed credit risk drivers (PDs and LGDs). The same approach is used to stress the market value of assets held as available for sale or at fair value in the banking book. ▪ **Credit risk weighted assets:** The impact of the scenarios is calculated via a combination of business volumes and similar factors to impairment drivers above, as well as the regulatory calculation and the level of pro-cyclicality of underlying regulatory credit risk models.
Market risk	▪ **Trading book losses:** All market risk factors on the balance sheet are stressed using specific market risk shocks (and are used for the CCR analysis, above). The severity of the shocks applied are dependent on the liquidity of the market under stress, e.g. illiquid or sticky positions are assumed to have a longer holding period than positions in liquid markets. ▪ **Pension fund:** The funding position of pension funds are stressed, taking into account key economic drivers impacting future obligations (e.g. long-term inflation and interest rates) and the impact of the scenarios on the value of fund assets.
Funding risk	▪ The risk of a mismatch between assets and liabilities, leading to funding difficulties, is assessed. Businesses apply scenario variables to forecasts of customer loans and advances and deposits levels, taking into account management actions to mitigate the impact of the stress which may impact business volumes. The Group funding requirement under stress is then estimated and takes into account lower availability of funds in the market. ▪ The analysis of funding risk also contributes to the estimate of stressed income and costs: – Stress impact on non-interest income is primarily driven by lower projected business volumes and hence lower income from fees and commissions. – Impact on net interest income is driven by stressed margins, which depend on the level of interest rates under stress as well as funding costs, and on stressed balance sheet volumes. This can be partly mitigated by management actions that may include repricing of variable rate products, taking into account interbank lending rates under stress. – The impact on costs is mainly driven by business volumes and management actions to partly offset profit reductions (due to impairment increases and decreases in income) such as headcount reductions and lower performance costs.
Operational risk, conduct risk and reputation risk	▪ These Principal Risks are generally not impacted as they are not directly linked to the economic scenario. Note that operational risk, however, is included as part of the reverse stress testing framework that incorporates assessment of idiosyncratic operational risk events. – Management of operational risk is described on page 152 – Management of conduct risk is described on page 163 – Management of reputation risk is described on page 161

The role of stress testing as input to businesses' plans and setting of strategy is described in more detail in the section below. The results also feed into our internal capital adequacy assessment process (ICAAP) submission to the PRA.

The H2 2014 Group-wide stress testing exercise was run as part of the 2014 MTP process, The Group assessed the impact of a modelled severe global stress scenario with both a 'low' and 'high' interest rates variant. The results show that overall the Group's profit before tax remains positive under both interest rate variants, with the Group remaining well capitalised above the required regulatory minimum level.

Regulatory stress testing
In addition to running internal Group-wide stress tests (e.g. as part of the MTP process described above), the Group also runs regulatory stress tests.

In 2014, Barclays participated in the European Banking Authority (EBA) stress test across 123 EU banks. The stress test was designed to assess the resilience of EU banks based on a common set of risks (e.g. credit and market risk, sovereign risk) under an EBA-defined adverse macroeconomic scenario. Detailed results of the EBA stress test were published in October and support the EBA's aim for increased transparency into EU banks' balance sheets.

Additionally in 2014, the PRA for the first time ran annual concurrent stress testing on the major UK banks, as part of the Bank of England's new stress testing framework. This was based on the PRA 'UK Variant' scenario, which included a more severe stress on the UK relative to the EBA test (e.g. c. 34% cumulative fall in UK house prices in the PRA test). The Bank of England (BoE) stress test results were published in December 2014.

Overall, the results of both the EBA and BoE stress tests support the Group's internal view that it is well placed to withstand severe economic stress.

Reverse stress testing
The Group-wide stress testing framework also includes reverse stress testing techniques which aim to identify the circumstances under which the Group's business model would no longer be viable, leading to a significant change in business strategy. Examples include extreme macroeconomic downturn scenarios, such as a break-up of the Eurozone, or specific idiosyncratic events, covering both operational risk and capital/liquidity events.

Reverse stress testing is used to help support ongoing risk management and is fully integrated into our risk appetite framework. Reverse stress testing methodology includes identifying tail risks associated with specific low likelihood circumstances, and identifying appropriate mitigating actions. For example, the approach for managing Eurozone peripheral risks was informed by the results of the reverse stress testing assessment run in 2010.

Business and risk type specific stress tests
Stress testing techniques at portfolio and product level are also used to support risk management. For example, portfolio management in the US cards business employs stressed assumptions of loss rates to determine profitability hurdles for new accounts. In the UK mortgage business, affordability thresholds incorporate stressed estimates of interest rates. In the Investment Bank, global scenario testing is used to gauge potential losses that could arise in conditions of extreme market stress. Stress testing is also conducted on positions in particular asset classes, including interest rates, commodities, equities, credit and foreign exchange.

Risk management in the setting of strategy

The planning cycle is centred on the MTP process, performed annually. This embeds the Group's objectives into detailed business plans which take into account the likely business and macroeconomic environment. The strategy is informed by a detailed risk assessment of the plans, which includes reviewing the firms' risk profile and setting of risk appetite. The BFRC has overall responsibility for reviewing the Group's risk profile and making appropriate recommendations to the Board. The Board is ultimately responsible for approving the MTP and the Group's risk appetite.

The planning cycle is summarised in the diagram below, and shows that the detailed risk assessment of the plans is an integral part of the MTP process. In particular, the risk appetite process ensures that senior management and the Board understand the MTP's sensitivities to key risk types, and includes a set of limits to ensure the Group stays within appetite. Additionally, stress testing informs management of the impact to the business of adverse macroeconomic scenarios and potential management actions that could be taken to mitigate the impact of stress. The role of risk management in the setting of strategy is further described below.

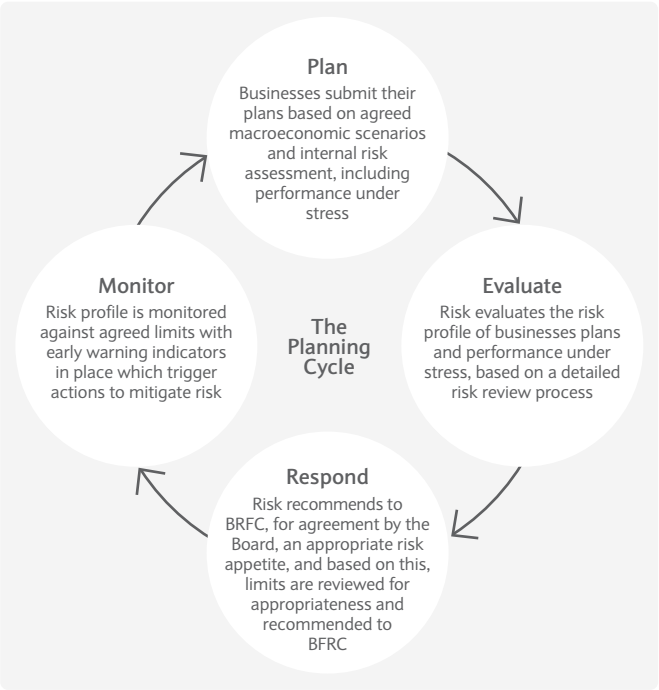
Plan
Businesses prepare detailed business plans as part of the MTP process. A key component of this process is the businesses' internal risk assessment, which combines running statistical models e.g. to calculate forecast impairments over the period of the plan, and risk subject matter expert judgement. The risk teams work closely with other functions within their businesses to inform the business plans.

Businesses are required to assess each of their portfolios and all Principal Risks (as relevant to their business) when preparing their business plans, and prepare detailed documentation, providing key risk metrics such as projected LLRs by portfolio. As part of their internal risk assessment, businesses provide performance of their business plans under 'Through-the-Cycle' (TTC), '1 in 7' and '1 in 25' scenarios, which defines the proposed risk appetite reflected in their plans and feeds into the setting of risk appetite for the Group.

Additionally, businesses assess the performance of their business plans under stress, based on 'severe, but plausible' macroeconomic scenarios provided by risk which are set in collaboration with business economists and agreed with the BFRC at the start of the process. As part of their stress test assessment, businesses are required to identify and document management actions that would be taken to mitigate the impact of stress, such as cost reductions and increased collections activity to reduce impairments.

Within the businesses, there is detailed risk review of the business plans, involving senior risk managers, with business CROs required to sign off on the risk profile of the plans, including the risk appetite and stress testing assessments described above. The results of businesses' internal risk assessment and corresponding detailed documentation forms the basis for discussion for the risk review process and setting of risk appetite for the Group, outlined below.

The planning cycle



Evaluate

Following submissions by businesses of their MTP business plans, there is a detailed review process led by the central risk team. This includes a robust review and challenge of businesses plans to ensure that the financial projections are internally consistent, value creating, achievable given risk management capabilities (e.g. supported by appropriate risk infrastructure) and that they present a suitable balance between risk and reward. The risk review process is informed by the detailed documentation provided by businesses, which forms the basis for discussion. The format and content of the documentation is pre-agreed to ensure sufficient information is provided to allow a detailed and comprehensive risk review.

The risk review process includes review of the proposed risk appetite by the business to support the MTP. If the businesses plans entail too high a level of risk, management will challenge businesses' plans. This assessment is based on a comparison of businesses own risk appetite assessment reflected in their business plans ('bottom-up' risk appetite) with the central risk team's view ('top-down' risk appetite) based on the expected risk appetite for the Group. Businesses may be asked to update their business plans to ensure the bottom-up risk appetite is within top-down appetite.

The risk review process also includes assessment of businesses' plans under stress. This includes detailed review of both the stressed estimates (e.g. impairments) and the methodology used to translate the economic scenario to stressed estimates. There is also a detailed review of the management actions that are included in businesses stress test results to ensure that these are appropriate and realistic in a stressed environment.

Risk review meetings are held with the CRO and each business, where the senior management of the business present their business plans and the findings from the risk reviews are discussed, including the risk appetite proposals and stress testing results. Businesses may be required to change their business plans as a result of these meetings.

Respond

Following detailed risk review of businesses plans, the central risk team will recommend to the BFRC for approval by the Board an appropriate risk appetite for the Group, taking into account businesses 'bottom-up' risk appetite assessment and stress testing results. The setting of risk appetite is divided into two key elements: 'financial volatility' and 'mandate and scale', defined above on pages 106 and 107. Based on the agreed risk appetite, limits are reviewed for appropriateness by the central risk team, as outlined below, and recommended to the BFRC.

Financial Volatility Allocation

The Group level loss appetite limit across principal financial risks is set by the Board as part of the annual setting of Risk Appetite. To further embed the risk appetite framework, loss appetite limits for a severe downturn scenario (1 in 25) are allocated to business level. The allocation is consistent with the annual financial volatility review and based on an agreed and repeatable monitoring measure.

Mandate and scale

Mandate and scale limits are set at Group or business level.

- Group limits are approved by the appropriate risk committee (e.g. Wholesale Credit Risk Management Committee) and are subject to additional escalation and governance requirements; and
- Business limits are approved by the relevant business risk team and reportable to the relevant risk committee.

Limits reflect the nature of the risk being managed and controlled and are measured by total financing limits, LGD, stress loss or other metrics as appropriate. There is explicit identification of the exposures that are captured by limits and any material exclusion must be agreed. Limits are reviewed at least annually. The factors taken into consideration when setting the limit will include:

- Group Risk Appetite;
- Current exposure / MTP forecasts;
- Risk return considerations; and,
- Senior risk management judgement.

Mandate and scale limits are split between three types:

- **Caps:** Hard limit, set to limit concentration to a live portfolio or risk;
- **Run off ceilings:** Set to monitor legacy positions being managed down over time; and,
- **Triggers for discussion:** Threshold set as trigger for follow up/ investigation.

Monitor

Financial volatility

The loss appetite allocation to businesses is tracked using an agreed and repeatable monitoring measure. The percentage utilisation of appetite is a risk metric that is part of the business Balanced Scorecard. Appetite utilisation monitoring is reported to the BFRC on a quarterly basis. Breaches must be approved and remedial actions mandated.

Mandate and scale

The limit excess process includes the following key points:

- Businesses must have adequate processes in place to monitor limit caps to avoid excesses;
- All excesses must be reported to the central risk team within 24 hours;
- Credit applications that would cause or increase an excess can only be approved once the limit cap is increased; and
- A remediation plan must be put in place.

A limit breach will have occurred if a limit goes into excess without being authorised by the relevant authority; or where the limit excess process is not adhered to unless the policy or terms of the limit allows for temporary excess.

Stress testing

Stress testing is also used as part of the risk monitoring framework. For example, the stress testing results inform the retail early warning indicator framework which is designed to trigger actions that would be taken to mitigate the impact of stress.

Management of credit risk and the internal ratings-based approach

This section discusses the organisation specific to the management of credit risks, and provides details of the calculation of risk weighted assets under the Internal Ratings Based approach of the Basel framework.

- Pages 112 to 121 cover the aspects of the Group's risk management framework specific to credit risk, including committees and the Group reporting structure
- As 73% of our regulatory capital is for credit risk, we devote pages 121 to 131 to detailing how we approach the internal ratings models, and how the framework supports risk differentiation and management.

Management of credit risk and the internal ratings-based approach

Credit risk management

The risk of suffering financial loss should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group.

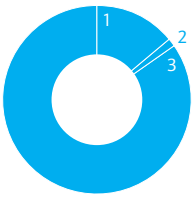
Overview

The granting of credit is one of the Group's major sources of income and, as a significant risk, the Group dedicates considerable resources to its control. The credit risk that the Group faces arises mainly from wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with clients. This is demonstrated by the impairment charge analysis chart. Other sources of credit risk arise from trading activities, including: debt securities, settlement balances with market counterparties, available for sale assets and reverse repurchase loans.

Credit risk management objectives are to:

- Maintain a framework of controls to ensure credit risk-taking is based on sound credit risk management principles;
- Identify, assess and measure credit risk clearly and accurately across the Group and within each separate business, from the level of individual facilities up to the total portfolio;
- Control and plan credit risk-taking in line with external stakeholder expectations and avoiding undesirable concentrations;
- Monitor credit risk and adherence to agreed controls; and
- Ensure that risk-reward objectives are met.

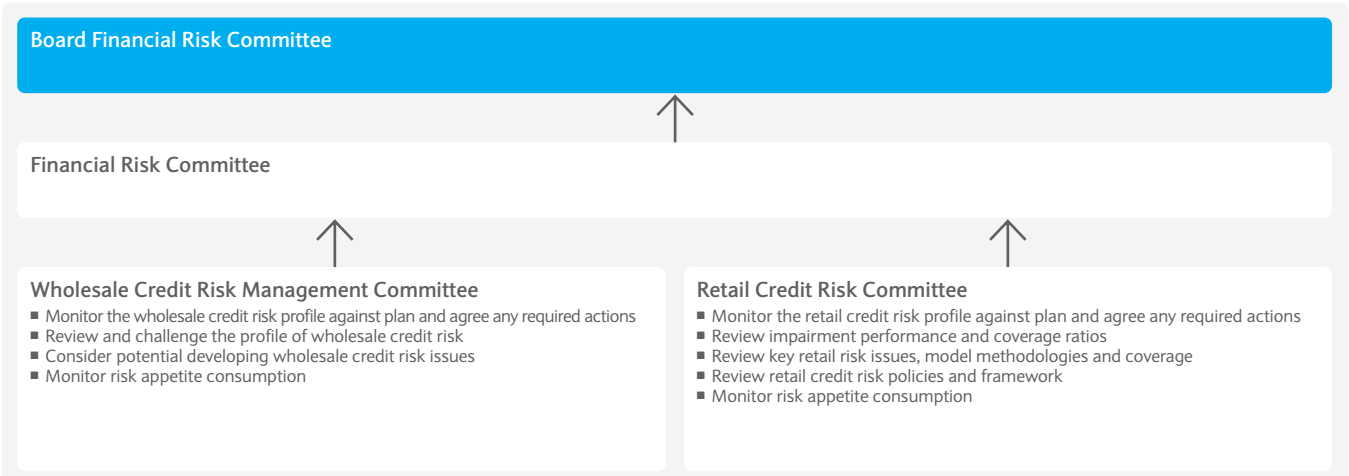
Total credit impairment charge and other provisions – Dec 14 (£2,168m)



	2014
1 Wholesale Loans & advances	£312m
2 AFS and Reserve Repos	£36m release
3 Retail Loans & Advances	£1,892m*

*Includes charges against contingent liabilities and guarantees

Organisation and structure



Wholesale and retail portfolios are managed separately to reflect the differing nature of the assets; wholesale balances tend to be larger and are managed on an individual basis while retail balances are larger in number but smaller in value and are, therefore, managed on a homogenous portfolio basis.

Responsibilities of credit risk management has been structured so that decisions are taken as close as possible to the business, while ensuring robust review and challenge of performance, risk infrastructure and strategic plans. The credit risk management teams in each business are accountable to the relevant business Chief Risk Officer who, in turn, reports to the CRO.

Roles and responsibilities

The responsibilities of the credit risk management teams in the businesses, the sanctioning team and other shared services include: sanctioning new credit agreements (principally wholesale); setting the policies for approval of transactions (principally retail); monitoring risk against limits and other parameters; maintaining robust processes, data gathering, quality, storage and reporting methods for effective credit risk management; for wholesale portfolios performing effective turnaround and workout scenarios via dedicated restructuring and recoveries teams; for retail portfolios maintaining robust collections and recovery processes/units; and review and validation of credit risk measurement models.

For wholesale portfolios, credit risk approval is undertaken by experienced credit risk professionals operating within a clearly defined delegated authority framework, with only the most senior credit officers entrusted with the higher levels of delegated authority. The largest credit exposures are approved at the Credit Committee which is managed by the central risk function. In the wholesale portfolios, credit risk managers are organised in sanctioning teams by geography, industry and/or product.

Management of credit risk and the internal ratings-based approach

The role of the Central Risk function is to provide Group-wide direction, oversight and challenge of credit risk-taking. Central risk sets the Credit Risk Control Framework, which provides a structure within which credit risk is managed together with supporting credit risk policies.

Reporting

The Group dedicates considerable resources to gaining a clear and accurate understanding of credit risk across the business and ensuring that its balance sheet correctly reflects the value of the assets in accordance with applicable accounting principles. This process can be summarised in five broad stages:

- Measuring exposures and concentrations;
- Monitoring performance and asset quality;
- Monitoring for weaknesses in portfolios;
- Raising allowances for impairment and other credit provisions; and
- Returning assets to a performing status or writing off assets when the whole or part of a debt is considered irrecoverable.

Measuring exposures and concentrations

Loans and advances to customers provide the principal source of credit risk to the Group although it can also be exposed to other forms of credit risk through, for example, loans and advances to banks, loan commitments and debt securities. Risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite, limits and controls, and to monitor the risks and adherence to limits by means of reliable and timely data.

One area of particular review is concentration risk. A concentration of credit risk exists when a number of counterparties or customers are engaged in similar activities or geographies, and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. As a result, the Group constantly reviews its concentration in a number of areas including, for example, geography, maturity and industry.

Mandate and scale limits are used to maintain concentrations at appropriate levels, which are aligned with the businesses' stated Risk Appetite. Limits are typically based on the nature of the lending and the amount of the portfolio meeting certain standards of underwriting criteria. Diversification, to reduce concentration risk, is achieved through setting maximum exposure guidelines to individual counterparties. Excesses are reported to the BFRC.

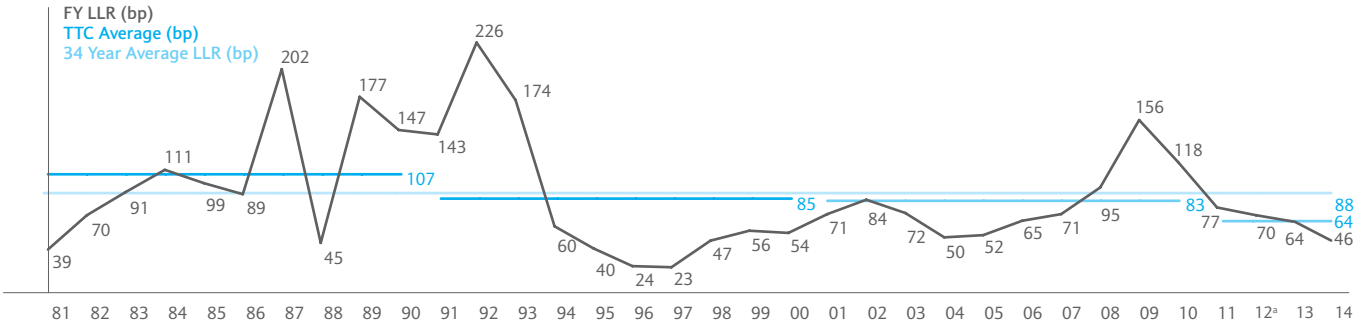
Monitoring performance and asset quality

Trends in the quality of the Group's loan portfolio are monitored in a number of ways including by way of:

Loan loss rate

The loan loss rate (LLR) provides a way of consistently monitoring trends in loan portfolio quality at the Group, business and product levels. The LLR represents the annualised impairment charges on loans and advances to customers and banks and other credit provisions as a percentage of the total, period-end loans and advances to customers and banks, gross of impairment allowances. Details of the LLR for the current period may be found in the Credit Risk Performance section in the 2014 Annual Report.

Loan loss rate (bps) – Longer term trends



a Restated to reflect the impact of IFRS10, which results in some former Exit Quadrant exposures being recorded at fair value from 2012 onwards.

From a full year peak of 156bps at 31 December 2009, the LLR has been on an improving trend. By the end of 2011, the LLR of 77bps had returned to pre-crisis levels and was lower than the long-term average. The LLR has continued to fall during 2012 to 2014 and now stands at 46bps.

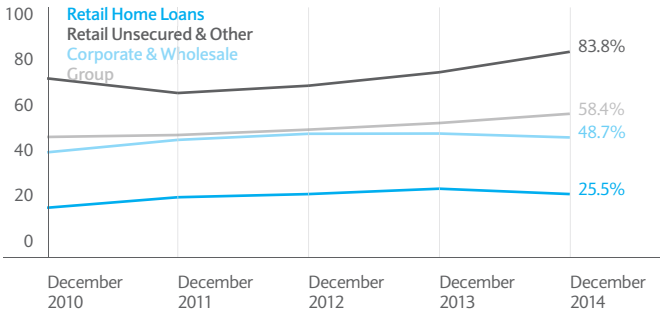
Coverage ratios

The impairment allowance is the aggregate of the identified and unidentified impairment balances. Impairment allowance coverage, or the coverage ratio, is reported at two levels:

- Credit risk loans (CRLs) coverage ratio, calculated as impairment allowances as a percentage of CRL balances; and
- Potential credit risk loans coverage ratio (impairment allowances as a percentage of total CRL and Potential Problem Loan balances).

See identifying potential credit risk loans on page 116 for more information for the criteria for these categories.

CRL coverage



Note
Some non-core exposures are not reported as CRLs following the introduction of IFRS10, which accounts for these balances at fair value.

Appropriate coverage ratios will vary according to the type of product but can be broadly shown to have typical severity rates based upon historic analysis:

- Secured retail home loans: 5%-25%
- Credit cards, unsecured and other personal lending products: 65%-80%
- Corporate facilities: 30%-50%.

CRL coverage ratios would therefore be expected to be at or around these levels over a defined period of time.

In principle, a number of factors may affect the Group's coverage ratios, including:

The mix of products within total CRL balances: coverage ratios will tend to be lower when there is a high proportion of secured retail and corporate balances within total CRLs. This is due to the fact that the recovery outlook on these types of exposures is typically higher than retail unsecured products, with the result that they will have lower impairment requirements;

The stage in the economic cycle: coverage ratios will tend to be lower in the earlier stages of deterioration in credit conditions. At this stage, retail delinquent balances will be predominantly in the early delinquency cycles and corporate names will have only recently moved to CRL categories. As such balances attract a lower impairment requirement, the CRL coverage ratio will be lower;

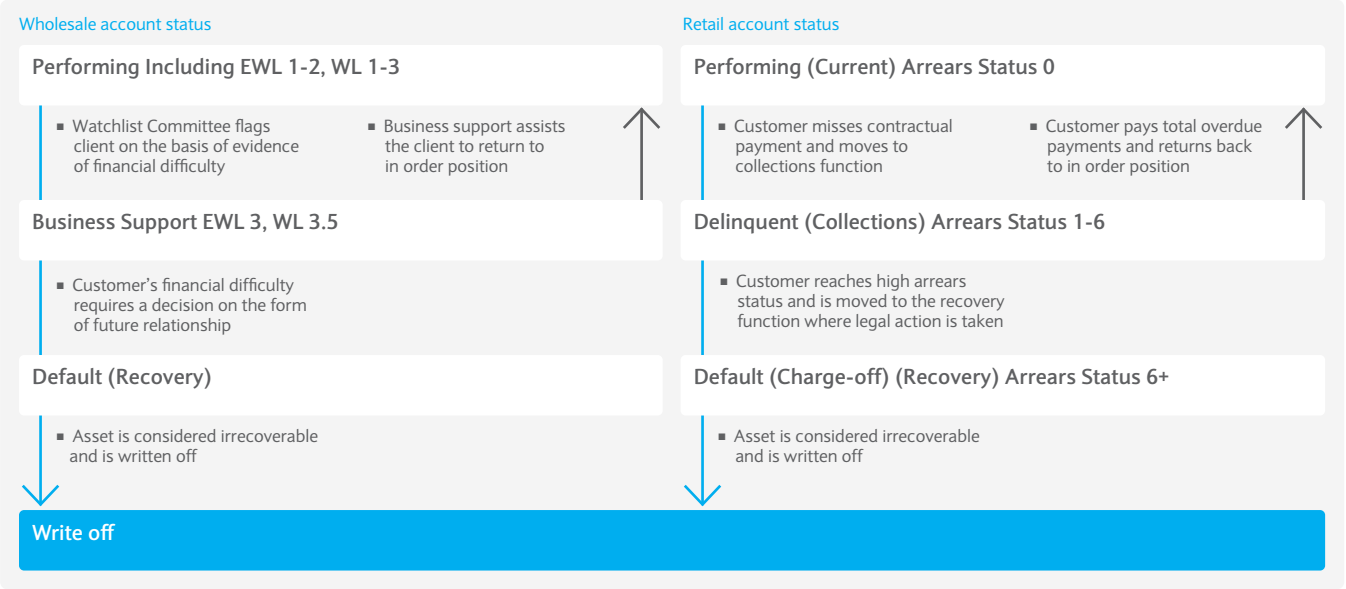
The balance of PPLs to CRLs: the impairment requirements for PPLs are lower than for CRLs, so the greater the proportion of PPLs, the lower the PCRL coverage ratio; and

Write-off policies: the speed with which defaulted assets are written off will affect coverage ratios. The more quickly assets are written off, the lower the ratios will be, since stock with 100% coverage will tend to roll out of PCRL categories more quickly.

Details of the coverage ratios for the current period are shown in the above chart and may be found in the analysis of loans and advances and impairment section in the 2014 Annual Report.

Monitoring weaknesses in portfolios

While the basic principles for monitoring weaknesses in wholesale and retail exposures are broadly similar, they reflect the differing nature of the assets. As a matter of policy, all facilities granted to corporate or wholesale counterparties are subject to a review on, at least, an annual basis, even when they are performing satisfactorily.



Wholesale portfolios[a]

Within the wholesale portfolios, the Basel definitions of default are used as default indicators which have been aligned to the IAS 39 objective evidence of impairment. A default is triggered if individual identified impairment is recognised. Group definitions of default used are:

- Bank puts the credit obligation on a non-accrued status;
- Bank makes a charge-off or account specific identified impairment resulting from a significant perceived decline in credit quality;
- Bank sells the credit obligation at a material credit-related economic loss;
- Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest or fees;
- Bank triggers a petition for obligor's bankruptcy or similar order;
- Bank becomes aware of the obligor having sought or having been placed in bankruptcy or similar protection where this would avoid or delay repayment of the credit obligation to the banking group;
- Bank becomes aware of an acceleration of an obligation by a firm;
- Where the obligor is a bank – revocation of authorisation;
- Where the obligor is a sovereign – trigger of default definition of an approved External Credit Assessment Institution (ECAI) such as a rating agency; and
- Obligor past due more than 90 days on any material credit obligation to the Group.

Wholesale accounts that are deemed to contain heightened levels of risk are recorded on graded early warning lists (EWL) or watchlists (WL) comprising three categories graded in line with the perceived severity of the risk attached to the lending, and its probability of default. Examples of heightened levels of risk may include, for example:

- A material reduction in profits;
- A material reduction in the value of collateral held;
- A decline in net tangible assets in circumstances which are not satisfactorily explained; or
- Periodic waiver requests or changes to the terms of the credit agreement over an extended period of time.

These lists are updated monthly and circulated to the relevant risk control points. Once an account has been placed on WL or EWL, the exposure is monitored and, where appropriate, exposure reductions are effected. Should an account become impaired, it will normally, but not necessarily, have passed through each of the three categories, which reflect the need for increasing caution and control. While all counterparties, regardless of financial health, are subject to a full review of all facilities on at least an annual basis, more frequent interim reviews may be undertaken should circumstances dictate. Specialist recovery functions deal with counterparties in higher levels of EWL or WL, default, collection or insolvency. Their mandate is to maximise shareholder value, ideally via working intensively with the counterparty to help them to either return to financial health or, in the cases of insolvency, obtain the orderly and timely recovery of impaired debts. Where a counterparty's financial health gives grounds for concern, it is immediately placed into the appropriate category.

Retail portfolios

Within the retail portfolios, which tend to comprise homogeneous assets, statistical techniques more readily allow potential credit weaknesses to be monitored on a portfolio basis. The approach is consistent with the Group's policy of raising a collective impairment allowance as soon as objective evidence of impairment is identified. Retail accounts can be classified according to specified categories of arrears status (or cycle), which reflects the level of contractual payments which are overdue. An outstanding balance is deemed to be delinquent when it is one day or one penny down and goes into default when it moves into recovery, normally 180 days. Impairment is considered at all stages of the customer's outstanding obligations.

Note
a Includes certain Business Banking facilities which are recorded as Retail for management purposes

The probability of default increases with the number of contractual payments missed, thus raising the associated impairment requirement.

Once a loan has passed through a prescribed number of cycles (normally six), it will charge-off and enter recovery status. Charge-off refers to the point in time when collections activity changes from the collection of arrears to the recovery of the full balance. In most cases, charge-off will result in the account moving to a legal recovery function or debt sale. This will typically occur after an account has been treated by a collections function. However, in certain cases, an account may be charged off directly from a performing status, such as in the case of insolvency or death.

The timings of the charge-off points are established based on the type of loan. For the majority of products, the standard period for charging off accounts is six cycles (180 days past due date of contractual obligation). Early charge-off points are prescribed for unsecured assets. For example, in case of customer bankruptcy or insolvency, associated accounts are charged off within 60 days of notification.

Identifying potential credit risk loans

The Group reports potentially and actually impaired loans as PCRLs. PCRLs comprise two categories of loans: PPLs and CRLs.

PPLs are loans that are currently complying with repayment terms but where serious doubt exists as to the ability of the borrower to continue to comply with such terms in the near future. If the credit quality of a wholesale loan on an EWL or WL deteriorates to the highest category, or a retail loan deteriorates to delinquency cycle 2, consideration is given to including it within the PPL category.

Should further evidence of deterioration be observed, a loan may move to the CRL category. Events that would trigger the transfer of a loan from the PPL to the CRL category include a missed payment or a breach of covenant. CRLs comprise three classes of loans:

Impaired loans: comprise loans where an individually identified impairment allowance has been raised and also include loans which are fully collateralised or where indebtedness has already been written down to the expected realisable value. This category includes all retail loans that have been charged off to legal recovery. The category may include loans, which, while impaired, are still performing;

Accruing past due 90 days or more: comprises loans that are 90 days or more past due with respect to principal or interest. An impairment allowance will be raised against these loans if the expected cash flows discounted at the effective interest rate are less than the carrying value; and

Impaired and restructured loans: comprises loans not included above where, for economic or legal reasons related to the debtor's financial difficulties, a concession has been granted to the debtor that would not otherwise be considered. Where the concession results in the expected cash flows discounted at the effective interest rate being less than the loan's carrying value, an impairment allowance will be raised. See Forbearance and other concession programmes below for more detail.

Allowances for impairment and other credit provisions

The Group establishes, through charges against profit, impairment allowances and other credit provisions for the incurred loss inherent in the lending book. Under IFRS, impairment allowances are recognised where there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition, and where these events have had an impact on the estimated future cash flows of the financial asset or portfolio of financial assets. Impairment of loans and receivables is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further allowance is necessary.

As one of the controls to ensure that adequate impairment allowances are held, movements in impairment to individual names with a total impairment allowance of £25m or more are presented to the Group's most senior Credit Committee for agreement, and of £10m-£25m to the Credit Committee Chair for his agreement.

Individually assessed impairment

Impairment allowances are measured individually for assets that are individually significant, and collectively where a portfolio comprises homogenous assets and where appropriate statistical techniques are available. In terms of individual assessment, the principal trigger point for impairment is the missing of a contractual payment which is evidence that an account is exhibiting serious financial problems, and where any further deterioration is likely to lead to failure. Details of other trigger points can be found above. Two key inputs to the cash flow calculation are the valuation of all security and collateral, as well as the timing of all asset realisations, after allowing for all attendant costs. This method applies mainly in the wholesale portfolios.

Collectively assessed impairment

For collective assessment, the principal trigger point for impairment is the missing of a contractual payment, which is the policy consistently adopted across all credit cards, unsecured loans, mortgages and most other retail lending. The calculation methodology relies on the historical experience of pools of similar assets; hence the impairment allowance is collective. The impairment calculation is typically based on a roll-rate approach, where the percentage of assets that move from the initial delinquency to default is derived from statistical probabilities based on historical experience. Recovery amounts are calculated using a weighted average for the relevant portfolio. This method applies mainly to the retail portfolios and is consistent with Group policy of raising an allowance as soon as impairment is identified. Unidentified impairment is also included in collective impairment.

Impairment for losses incurred but not specifically indentified

Unidentified impairment allowances are also raised to cover losses which are judged to be incurred but not yet specifically identified in customer exposures at the balance sheet date, and which, therefore, have not been specifically reported. The incurred but not yet reported calculation is based on the asset's probability of moving from the performing portfolio to being specifically identified as impaired within the given emergence period and then on to default within a specified period, termed as the outcome period. This is calculated on the present value of estimated future cash flows discounted at the financial asset's effective interest rate. The emergence and outcome periods vary across products.

Wholesale portfolios

Impairment in the wholesale portfolios is generally calculated by valuing each impaired asset on a case by case basis, i.e. on an individual assessment basis. A relatively small amount of wholesale impairment relates to unidentified or collective impairment; in such cases, impairment is calculated using modelled Probability of Default (PD) x Loss Given Default (LGD) x Exposure at Default (EAD) adjusted for an emergence period.

Retail portfolios

For retail portfolios, the impairment allowance is mainly assessed on a collective basis and is based on the drawn balances adjusted to take into account the likelihood of the customer defaulting at a particular point in time (PDpit) and the amount estimated as not recoverable (LGD). The basic calculation is:

Impairment allowance = Total outstandings x PDpit x LGD

The PDpit increases with the number of contractual payments missed thus raising the associated impairment requirement.

In retail, the current policy also incorporates a high risk segment which is included in the unidentified impairment calculation. High risk segments are those which can be demonstrated to experience higher levels of loss when compared to the performing segment. This segmentation allows for earlier identification of potential loss in a portfolio. Unidentified impairment is also referred to as collective impairment. This is to reflect the impairment that is collectively held against a pool of assets where a loss event has occurred, but has not yet been captured.

Sensitivity of the impairment to key assumptions

Wholesale portfolios

Impairment in the wholesale portfolios is generally calculated by valuing each impaired asset on a case by case basis, and is not therefore primarily model-driven. As such, the key assumptions that would have the most impact on impairment provisions in the wholesale portfolios are the valuations placed upon security and collateral held and the timing of asset realisations.

When calculating impairment, estimated future cash flows are discounted at the financial asset's original effective interest rate. At present, in wholesale portfolios, the impact of discounting is relatively small in itself but would rise with reference rates. In addition, to the extent that a rise in interest rates impacted upon economic growth and/or serviceability of wholesale clients and customers, this would be expected to feed through in future impairment numbers.

In 2014, key judgements were made on a number of identified cases within Investment Bank, Corporate Banking and Wealth and Investment Management.

Retail portfolios

For retail portfolios, impairment is calculated, predominantly using models. The models are developed using historical data and include explicit and implicit assumptions such as debt sale estimates, house price valuations and the distribution of accounts. Model monitoring and validation are undertaken regularly, at least annually, to ensure that models are fit for purpose. Further to this, the Group accounts for the impact of changes in the economic environment and lags resulting from the design of the models to ensure overall impairment adequacy. See Management adjustments to Models for Impairment in the 2014 Annual Report for more information on key management judgements in 2014. See Stress testing (page 107) for further information.

Emergence and Outcome Periods

To develop models to calculate the allowance for impairment it is first necessary to estimate the time horizons of these models. These time horizons are called the emergence and outcome periods. Emergence period is the time period between the loss event and the date that impairment is identified, i.e. move from the performing to the impaired segment. Outcome period is the time it takes for a retail account to move from the impaired segment to the default segment.

This methodology ensures that the Group captures the loss incurred at the correct balance sheet date. These impairment allowances are reviewed and adjusted at least quarterly by an appropriate charge or release of the stock of impairment allowances based on statistical analysis and management judgement. Where appropriate, the accuracy of this analysis is periodically assessed against actual losses.

Wholesale portfolios

For wholesale portfolios in Corporate Banking and the Investment Bank, the emergence period is portfolio specific and is based on the anticipated length of time from the occurrence of a loss event to identified impairment being incurred. The emergence period in Corporate Banking is derived from actual case file review. This has also been benchmarked against the time taken to move between risk grades in internal watch lists, from EWL1 or 2 into EWL3 which is the level of risk that will attract a collective impairment allowance. Both methodologies produce similar results for the emergence period, which is currently six months; this was increased from three months during the year based on case file reviews, data and influenced by benign economy and low interest rate conditions. The average life of the Investment Bank portfolio is estimated to be 18 months, during which time the Investment Bank is exposed to losses on the portfolio. However, it is expected that incurred losses would become apparent within six months, therefore the Investment Bank use a six-month emergence period.

Retail portfolios

For retail portfolios, minimum emergence periods and outcome periods are defined at a product level. Emergence and outcome periods at 31 December 2014 for the main retail products are as shown in the table below:

Emergence and outcome periods

Product type	Emergence period (months)	Outcome period (months)
Mortgages	6	12
Credit cards	3	6
Personal loans, overdrafts and other secured loans	3	6
Business banking arrears managed commercial mortgages	6	12
Business banking arrears managed non-commercial mortgages	3	6
Business banking EWL managed	6	12
Mortgages under forbearance	n/a	24
All unsecured products under forbearance	n/a	12
Business banking EWL managed under forbearance	n/a	24

Outcome periods are tested periodically (at least annually) against the actual time elapsing from the initial indication of potential default to the default event. When necessary, the outcome period is adjusted to reflect our most up-to-date experience of customer behaviour.

Returning assets to a performing status

Wholesale portfolios

In wholesale portfolios, an account may only be returned to a performing status when it ceases to have any actual or perceived financial stress and no longer meets any of the EWL/WL criteria, or once facilities have been fully repaid or cancelled. Unless a facility is fully repaid or cancelled, the decision in Corporate Banking to return an account to performing status may only be taken by the credit risk team, while within the Investment Bank, the decision can only be taken by the Investment Bank WatchList Committee.

Retail portfolios

A retail asset, pre-point of charge-off may only be returned to a performing status in the following circumstances:

- All arrears (both capital and interest) have been cleared and payments have returned to original contractual payments;
- For revolving products, a re-age event (see page 167 of the 2014 Annual Report) has occurred, when the customer is returned to an up-to-date status without having cleared the requisite level of arrears;
- For amortising products excluding residential mortgages, a small arrears capitalisation event has occurred, where the customer is returned to an up-to-date status without having cleared the requisite level of arrears; and
- For amortising products, which are performing on a programme of forbearance and meet the following criteria may be returned to the performing book classified as high risk[a]:
  - No interest rate concessions must have been granted;
  - Restructure must remain within original product parameters (original term + extension); and
  - Twelve consecutive payments at the revised contractual payment amount must have been received post the restructure event.

For residential mortgages, accounts may also be considered for rehabilitation post charge-off, where customer circumstances have changed. The customer must clear all unpaid capital and interest, and confirm their ability to meet full payments going forward.

Recovery units

Recovery units are responsible for exposures where deterioration of the counterparty/customer credit profile is severe to the extent that timely or full recovery of exposure is considered unlikely and default has occurred or is likely in the short term. Recovery teams set and implement strategies to recover the Group's exposure through realisation of assets and collateral in co-operation with counterparties/customers and where this is not possible through insolvency and legal procedures.

In Wholesale for a case to be transferred to a recovery unit it must be in default and have ceased to actively trade or be in insolvency. In Retail, the timings of the charge-off points to recovery units are established based on the type of loan. For the majority of products, the standard period for charging off accounts is six missed contractual payments (180 days past due date of contractual obligation) unless a Forbearance programme is agreed. Early charge-off points are prescribed for unsecured assets. For example, in case of customer bankruptcy or insolvency, associated accounts are charged off within 60 days of notification. See recovery information included in Analysis of Specific Portfolio and Asset Types section in 2014 Annual Report.

Foreclosures in process and properties in possession

Foreclosure is the process where the bank initiates legal action against a customer with the intention of terminating the loan agreement whereby the bank may repossess the property subject to local law and recover amounts it is owned. This process can be initiated by the bank independent of the impairment treatment and it is therefore possible that the foreclosure process may be initiated while the account is still in collections (delinquent) or in recoveries (post charge-off) where the customer has not agreed a satisfactory repayment schedule with the bank.

Properties in possession include properties held as 'loans and advances to customers' and properties held as 'other real estate owned'.

Held as 'loans and advances to customers' (UK and Italy) refers to the properties where the customer continues to retain legal title but where the bank has enforced the possession order as part of the foreclosure process to allow for the disposal of the asset, or the court has ordered the auction of the property.

Held as 'other real estate owned' (South Africa, Spain and Portugal) refers to properties where the bank has taken legal ownership of the title as a result of purchase at an auction or similar and treated as 'other real estate owned' within other assets on the bank's balance sheet.

Writing off assets

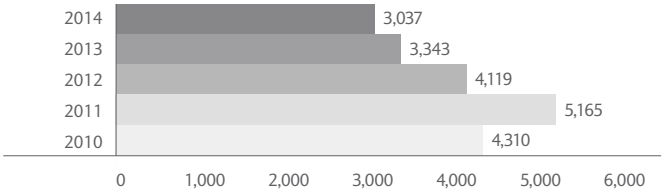
Write-off refers to the point where it is determined that the asset is irrecoverable, it is no longer considered economically viable to try and recover the asset, it is deemed immaterial, or full and final settlement is reached and a shortfall remains. In the event of write-off, the customer balance is removed from the balance sheet and the impairment reserve held against the asset is released.

The timing and extent of write-offs may involve some element of subjective judgement. Nevertheless, a write-off will often be prompted by a specific event, such as the inception of insolvency proceedings or other formal recovery action, which makes it possible to establish that some or the entire advance is beyond realistic prospect of recovery. In any event, the position of impaired loans is reviewed at least quarterly to ensure that irrecoverable advances are being written off in a prompt and orderly manner and in compliance with any local regulations.

For retail portfolios the timings of the write-off points are established based on the type of loan. For unsecured, assets in the recoveries book will be written-off if the required qualifying repayments are not made within a rolling twelve-month period. For secured loans, the shortfall after the receipt of the proceeds from the disposal of the collateral is written off within three months of that date if no repayment schedule has been agreed with the borrower. Such assets are only written off once all the necessary procedures have been completed and the amount of the loss has been determined.

Subsequent recoveries of amounts previously written off are written back and hence decrease the amount of the reported loan impairment charge in the income statement. In 2014, total write-offs of impaired financial assets decreased 9% to £3,037m (2013: £3,343m).

Total write offs of impaired financial assets (£m)



Note
a The identification and subsequent treatment of up-to-date customers who, either through an event or observed behaviour exhibit potential financial difficulty. High Risk includes customers who have suffered recent financial dislocation, i.e. prior forbearance or re-age.

Forbearance and other concession programmes

Forbearance programmes
Forbearance takes place when a concession is made on the contractual terms of a facility in response to an obligor's financial difficulties. The Group offers forbearance programmes to assist customers and clients in financial difficulty through agreements that may include accepting less than contractual amounts due where financial distress would otherwise prevent satisfactory repayment within the original terms and conditions of the contract. These agreements may be initiated by the customer, the bank or a third party.

Forbearance programmes for wholesale portfolios

Wholesale client relationships are individually managed with lending decisions made with reference to specific circumstances and on bespoke terms.

Forbearance occurs when, for reasons relating to the actual or perceived financial difficulty of an obligor, a concession is granted below the Group's current standard rates (i.e. lending criteria below the Group's current lending terms), that would not otherwise be considered. This includes all troubled debt restructures granted below our standard rates.

Forbearance would typically be evident where the concession(s) agreed impact the ability to repay debt or avoid recognising a default with a lack of appropriate commercial balance and risk mitigation/structural enhancement of benefit to the Group in return for concession(s).

The following list is not exhaustive but provides some examples of instances that would typically be considered to be evidence of forbearance:

- A reduction of current contractual interest rate for the sole purpose of maintaining performing debt status with no other improvement to terms of benefit to the Group;
- Non-enforcement of a material covenant breach impacting the counterparty's ability to repay;
- Converting a fully or partially amortising facility to bullet repayment at maturity with no other improvement to terms of benefit to the Group for the sole purpose of avoiding a payment default due to customer's inability to meet amortisation;
- Extension in maturity date for a project finance facility that gives an effective contractual term longer than the underlying project contract being financed; and,
- Any release of a material security interest without receiving appropriate value by way of repayment/ alternate security offered or other improvement in terms available to the Group commensurate with the value of the security released.

Where a concession is granted that is not a result of financial difficulty and/or is within our current market terms, the concession would not amount to forbearance. For example, a commercially balanced restructure within the Group's current terms which involves the granting concessions and receiving risk mitigation/structural enhancement of benefit to the Group would not be indicative of forbearance.

The following list (not exhaustive) gives some examples of instances that would not typically be considered to be forbearance:

- Temporary/permanent waivers/resets of covenants agreed in line with our current terms;
- Amending contractual maturity to meet current lending terms that results in a previously amortising facility having a bullet repayment as a consequence of shorter maturity date;
- Equity/warrants taken to increase return to the Group without compromising contractual interest;
- Extension of maturity date where the extension is within the normally granted terms for the type of facility in question; and
- Release of a material security interest where commensurate value is received by way of repayment/ other security offered.

Cases where a technical default may have occurred, the Group has decided to reserve its position but does not consider the default to be sufficient to impact the counterparty's ability to pay, would not typically be considered forbearance (as the counterparty would continue to meet its payment obligations under existing terms).

The Problem Credits Policy requires that a permanent record is retained of all individual cases of forbearance, and upon granting forbearance the counterparty is placed on EWL or WL. The counterparty then remains on EWL or WL and is flagged as being in forbearance for a minimum of 12 months from the date forbearance is applied. Counterparties may be removed from EWL or WL status in less than 12 months in exceptional circumstances, e.g. full repayment of facilities or significant restructuring. Counterparties placed on EWL or WL status are subject to increased levels of credit risk oversight.

Counterparties who have been granted forbearance are classified as a Basel 'unlikeliness' to pay default for capital purposes with PD of 1 throughout the period that they remain classified as being in forbearance. This is on the basis that without intervention by the Group the counterparties are unlikely to meet their obligations in full which would lead to default.

Impairment is assessed on an individual basis and recognised where relevant impairment triggers have been reached including where counterparties are in arrears and require renegotiation of terms. Forbearance is considered to be an indicator that impairment may be present and an impairment test is performed for all cases placed in forbearance.

Given that these loans have already been assessed for impairment at the point of being classified as being in forbearance, the Group does not have additional procedures to evaluate the likelihood that these loans would default within the loss emergence and confirmation periods.

A control framework exists along with regular sampling to ensure policies for watchlist and impairment are enforced as defined and to ensure that all assets have suitable levels of impairment applied. Portfolios are subject to independent assessment.

Aggregate data for wholesale forbearance cases is reviewed by the Wholesale Credit Risk Management Committee.

Forbearance programmes for retail portfolios

Retail forbearance is available to customers experiencing financial difficulties. Forbearance solutions take a number of forms depending on individual customer circumstances. Short-term solutions focus on temporary reductions to contractual payments and may change from capital and interest payments to interest only. For loan customers with longer-term financial difficulties, term extensions may be offered, which may include interest rate concessions, for credit card customers with longer-term financial difficulties, term extensions may be offered, which may include interest rate concessions and a switch to fully amortising balances.

When an account is placed into a programme of forbearance, the asset will be classified as such for the remainder of its term, unless after 12 months it qualifies for reclassification, upon which it will be returned to the up-to-date book and classified as high risk for a further 12 month period. When the Group agrees to a forbearance programme with a customer, the impairment allowance recognises the impact on cash flows of the agreement to receive less than the original contractual payments. The Retail Impairment Policy prescribes the methodology for impairment of forbearance assets, which is measured by comparing the debt outstanding to the revised expected repayment. This results in higher impairment, in general, than for fully performing assets, reflecting the additional credit risk attached to loans subject to forbearance.

During 2014, Barclays continued to assist customers in financial difficulty through the use of forbearance programmes. However, the extent of forbearance offered by the Group to customers and clients remains small in comparison to the overall size of the loan book.

The level of forbearance extended to customers in other retail portfolios is not material and, typically, does not currently play a

significant part in the way customer relationships are managed. However, additional portfolios will be added to this disclosure should the forbearance in respect of such portfolios become material.

A retail loan is not considered to be renegotiated where the amendment is at the request of the customer, there is no evidence of actual or imminent financial difficulty and the amendment meets with all underwriting criteria. In this case it would be treated as a new loan. In the normal course of business, customers who are not in financial difficulties frequently apply for new loan terms, for example to take advantage of a lower interest rate or to secure a further advance on a mortgage product. Where these applications meet our underwriting criteria and the loan is made at market interest rates, the loan is not classified as being in forbearance. Only in circumstances where a customer has requested a term extension, interest rate reduction or further advance and there is evidence of financial difficulty is the loan classified as forbearance and included in our disclosures on forbearance.

Please see the Credit risk performance section of the 2014 Annual Report for details of principal wholesale and retail assets currently in forbearance.

Impairment of loans under forbearance

Loans under forbearance programmes are subject to Group policy. In both retail and wholesale portfolios, identified impairment is raised for such accounts, recognising the agreement between the Group and customer to pay less than the original contractual payment and is measured using a future discounted cash flow approach comparing the debt outstanding to the expected repayment on the debt. This results in higher impairment, in general, being held for loans under forbearance than for fully performing assets, reflecting the additional credit risk attached to loans subject to forbearance.

Sustainability of loans under forbearance

The Group monitors the sustainability of loans for which forbearance has been granted.

Wholesale portfolios

In the wholesale portfolios, counterparties that have been granted forbearance are placed on EWL or WL and therefore subject to increased levels of credit risk oversight. Counterparties then remain on EWL or WL and are classified as being in forbearance with a PD of 1 for capital purposes for a minimum of 12 months from the date forbearance is applied until satisfactory performance is evidenced. Forbearance status and the related default treatment for capital can be removed after 12 months from being applied if any of the following criteria is met:

- The counterparty no longer benefits from a concession below our current market rates or reverts back to their original lending terms (prior to the concession being applied);
- The counterparty ceases to have any actual or perceived financial stress; and
- A significant restructure takes place which leads to a significant improvement in the credit profile of the counterparty.

Counterparties may only be removed from being classified as being in forbearance with a PD of 1 for capital purposes in less than 12 months in exceptional circumstances, e.g. full repayment of facilities or significant restructuring that materially improves credit quality. Counterparties continuing to benefit from a concession below current market can be removed from EWL or WL and no longer be classified as in forbearance provided they do not meet any of the EWL or WL criteria and can evidence consistent satisfactory performance throughout the minimum twelve-month period.

Retail portfolios

In retail portfolios, the type of forbearance programme offered should be appropriate to the nature and the expected duration of the customer's financial distress. It is imperative that the solution agreed is both appropriate to that customer and sustainable, with a clear demonstration from the customer of both willingness and ability to repay. Before any permanent programme of forbearance is granted, an affordability assessment is undertaken to ensure suitability of the offer. When customers exit forbearance, the accounts are ring-fenced as a high risk segment within the up-to-date book for a period of at least twelve months.

For disclosure on the Group's accounting policy with respect to impairment, see pages 116 to 118 in this document and Note 7 of the 2014 Annual Report.

Other programmes

Retail re-aging activity

Re-aging refers to the placing of an account into an up-to-date position without the requisite repayment of arrears. The re-age policy applies to revolving products only. No reduction is made to the minimum due payment amounts which are calculated, as a percentage of balance, with any unpaid principal included in the calculation of the following month's minimum due payment.

The changes in timing of cash flows following re-aging do not result in any additional cost to the Group. The following are the conditions required to be met before a re-age may occur:

- The account must not have been previously charged off or written off;
- The borrower cannot be bankrupt, subject to an Individual Voluntary Arrangement (a UK contractual arrangement with creditors for individuals wishing to avoid bankruptcy), a fraud or deceased;
- The borrower must show a renewed willingness and ability to repay the debt. This will be achieved by the borrower making at least three consecutive contractual monthly payments or the equivalent cumulative amount. Contractual monthly payment is defined as the contractual minimum due. Funds may not be advanced for any part of this;
- The account must have been on book at least nine months (i.e. nine months prior to the three-month qualification period); and
- No account should be re-aged more than once within any twelve-month period, or more than twice in a five year period.

Assets are considered to belong to a separate high risk pool. Under high risk, the performance of the assets is a risk characteristic and results in a higher probability of default being assigned to them in impairment models which meet the requirement of IAS 39, AG87-88. This results in an appropriately higher impairment allowance being recognised on the assets. See 2014 Annual Report for more information.

Retail small arrears capitalisation

Small arrears capitalisation is available for amortising products with the exception of residential mortgages. This refers to the capitalisation of small levels of arrears (up to 90 days past due), together with either a corresponding term extension or increase to contractual monthly payment without the requirement to classify the accounts as forbearance. Contractual monthly payments must not be reduced. The small arrears capitalisation activity is also subject to the conditions outlined above under Retail re-aging activity, being met. Any capitalisation event exceeding this must be executed under the direction of the Forbearance Policy.

Refinancing risk

This is the risk that the borrower or group of correlated borrowers may be unable to repay bullet-repayment loans at expiry, and will therefore need refinancing.

From a large corporates perspective, refinancing risk will typically be associated with loans that have an element of bullet repayment incorporated into the repayment profile. Refinancing risk is taken into account on a case by case basis as part of the credit review and approval process for each individual loan. The review will consider factors such as the strength of the business model and sustainability of the cash flows; and for bridge loans, the certainty of the sources of repayment and any associated market risk.

Commercial real estate loans will frequently incorporate a bullet repayment element at maturity. Where this is the case, deals are sized and structured to enable the Group to term out the loan if the client

were unable to refinance the loan at expiry. Credit review will incorporate an examination of various factors that are central to this consideration, such as tenant quality, tenancy agreements (including break clauses), property quality and interest rate sensitivity.

Loans to small and medium enterprises (SMEs) will typically be either revolving credit lines to cover working capital needs or amortising exposures, with periodic refinancing to give the opportunity to review structure, pricing, etc.

Please refer to the maturity analysis for UK CRE and customers with interest-only home loans in the credit risk performance section in the 2014 Annual Report for more information.

Internal ratings based (IRB) approach
This approach relies on internal models to derive risk weights. The IRB approach is divided into two alternative applications, Advanced and Foundation:

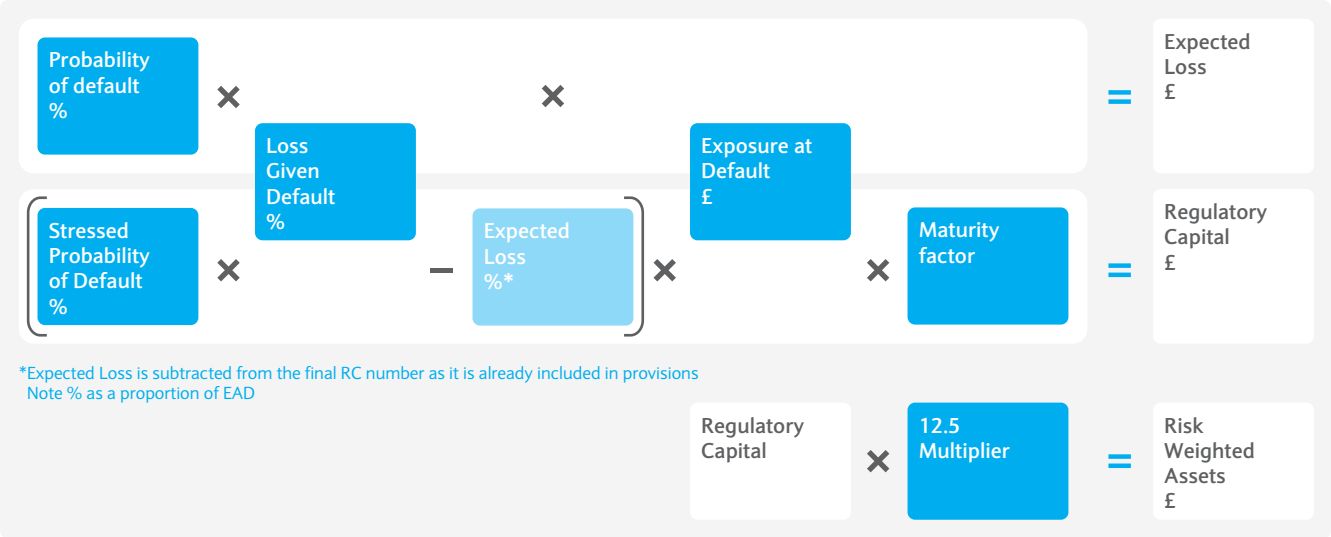
- Advanced IRB (AIRB): Barclays uses its own estimates of probability of default (PD), loss given default (LGD) and credit conversion factor to model a given risk exposure; and
- Foundation IRB: Barclays applies its own PD as for Advanced, but it uses standard parameters for the LGD and the credit conversion factor. The Foundation IRB approach is specifically designed for wholesale credit exposures. Hence retail, equity, securitisation positions and non-credit obligations asset exposures are treated under Standardised or AIRB.

The IRB calculation for credit risk
The principal objective of credit risk measurement is to produce the most accurate possible quantitative assessment of the credit risk to which the Group is exposed, from the level of individual facilities up to the total portfolio. Integral to this is the calculation of internal ratings, which are used in many aspects of credit risk management and in the calculation of regulatory and economic capital. The key building blocks of this process are:

- Probability of default (PD);
- Exposure at default (EAD); and
- Loss given default (LGD).

See table 3 on page 12 for a summary of the coverage of the IRB approach.

The building blocks of Expected Loss, Pillar 1 Regulatory Capital requirements and RWAs



*Expected Loss is subtracted from the final RC number as it is already included in provisions
Note % as a proportion of EAD

Each customer or facility is allocated an estimated PD, LGD and EAD, which is used in the credit rating system for a particular customer within each asset class:

To calculate the PD, the Group assesses the credit quality of borrowers and other counterparties and assigns them an internal risk rating using appropriate models. The Group recognises the need for two different expressions of PD depending on the purpose for which it is used:

- PD estimates can be calculated on a through-the-cycle (TTC) basis, reflecting the predicted default frequency in an average twelve-month period across the credit cycle, or on a point-in-time (PIT) basis, reflecting the predicted default frequency in the next twelve months; or
- LGD and EAD estimates can be calculated as downturn measures, reflecting behaviour observed under stressed economic conditions, or as business-as-usual (BAU) measures, reflecting behaviour under conditions that are considered normal based on experience.

For the purposes of calculating regulatory and economic capital, long-run average TTC PDs are required for wholesale and retail secured products. See Applications of internal ratings, below, for more information. However, for the purposes of pricing and existing customer management, PDs should represent the best estimate of probability of default given the current position in the credit cycle. Hence, PIT PDs are also required. PIT PDs are also used for the calculation of capital on certain retail unsecured products.

Should a customer default, some part of the exposure is usually recovered. The part that is not recovered, the actual loss, together with the economic costs associated with the recovery process, comprise the LGD. The Group estimates average LGD using historical information. The level of LGD depends principally on:

- The type of collateral (if any);
- The seniority or subordination of the exposure;
- The industry in which the customer operates (if a business);
- The length of time taken for the recovery process and the timing of all associated cash flows; and
- The work-out expense.

The outcome is also dependent on economic conditions that may determine, for example, the prices that can be realised for assets, whether a business can readily be refinanced or the availability of a repayment source for personal customers.

For the purposes of regulatory capital, an adjustment is made to the modelled LGD to account for the increased losses experienced under downturn conditions, giving a downturn LGD.

EAD represents the expected level of usage of the credit facility should default occur. At the point of default, the customer exposure can vary from the current position due to the combined effects of additional drawings, repayment of principal and interest and fees. EAD parameters are all derived from internal estimates and internal historical behaviour. The lower bound of EAD for regulatory capital purposes is the current balance at calculation of EAD. For derivative instruments, EAD is the estimated cost of replacing contracts where counterparties have incurred obligations that they have failed to satisfy.

Applications of internal ratings
The three components described – PD, LGD and EAD – are building blocks used in a variety of applications that measure credit risk across the entire portfolio:

- **Credit approval:** PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are frequently used as decision-making tools. In wholesale and some retail mortgage portfolios, PD models are used to direct applications to an appropriate credit-sanctioning level;
- **Credit grading:** originally introduced in the early 1990s to provide a common measure of risk across the Group. Wholesale credit grading now employs a 21-point scale of default probabilities. These are shown in table 27 on page 49;
- **Risk-reward and pricing:** PD, EAD and LGD metrics are used to assess the profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions;
- **Risk appetite:** measures of expected loss and the potential volatility of loss are used in the Group's risk appetite framework. See page 106;
- **Impairment calculation:** under IAS 39, many of our collective impairment estimates incorporate the use of our PD and LGD models, adjusted as necessary. See page 116;
- **Collections and recoveries:** model outputs are used to identify segments of the portfolio where collection and recovery efforts should be prioritised;
- **Economic capital (EC) calculation:** most EC calculations use similar inputs as the regulatory capital (RC) process; and
- **Risk management information:** Risk generate reports to inform senior management on issues such as business performance, risk appetite and EC consumption. Model outputs are used as key indicators in those reports.

Ratings processes and models for wholesale exposures

To construct ratings for wholesale customers, including institutions, corporates, specialised lending, purchased corporate receivables and equity exposures, we use external models, rating agencies and internally constructed models. The applicability of each of these approaches to our customers has been validated to internal rating standards. See the control mechanisms for the rating system section below for more information. The rating system is constructed to ensure that a client receives the same rating regardless of the part of the business with which it is dealing. To achieve this, a model hierarchy is adopted which requires users to adopt a specific approach to rating each counterparty depending upon the nature of the business and its location.

Wholesale PD models
Internally built models are widely used. We employ a range of methods in the construction of these models:

- **Statistical models** such as behavioural and application scorecards are used for our high volume portfolios such as small or medium enterprises (SME). The model builds typically incorporate the use of large amounts of internal data, combined with supplemental data from external data suppliers. Wherever external data is sourced to validate or enhance internally held data, similar data quality standards to those applicable to the management of internal data are enforced;
- **Structural models** incorporate in their specification the elements of the industry-accepted Merton framework to identify the distance to default for a counterparty. This relies upon the modeller having access to specific time series data or data proxies for the portfolio. Data samples used to build and validate these models are typically constructed by appropriately combining data sets from internal default observations with comparable externally obtained data sets from commercial providers such as rating agencies and industry data gathering consortia; and
- **Expert lender models** are used for parts of the portfolio where the risk drivers are specific to a particular counterparty, but where there is insufficient data to support the construction of a statistical model. These models utilise the knowledge of credit experts that have in-depth experience of the specific customer type being modelled. For any of the portfolios with a low number of default observations, the Group adopts specific rules to ensure that the calibration of the model meets the current Basel and regulatory criteria for conservatism.

Wholesale LGD models
In wholesale portfolios, the main approaches to calculating LGD aim to establish the effects of drivers (including industry, collateral coverage, recovery periods, seniority and costs) by looking at the Group's historical experience, supplemented with other external information where necessary. Estimates built using historical information are reviewed to establish whether they can be expected to be representative of future loss rates, and adjusted if necessary.

Wholesale EAD models
In a similar fashion, wholesale EAD models estimate the potential utilisation of headroom based on historical information also considering the future outlook of client behaviour.

Ratings processes and models for retail exposures

Retail banking and cards operations have long and extensive experience of using credit models in assessing and managing risks. As a result, models play an integral role in customer approval and management decisions. Most retail models are built in-house using internal data. While most models are statistically or empirically derived, some expert lender models (similar to those described in the wholesale context) are used, particularly in situations where data scarcity precludes the statistically robust derivation of certain model parameters. In these cases, appropriate assumptions are typically used, and wherever possible they are validated against internal and external experience.

In a retail context, there is clear product delineation in terms of the models that are used and PDs/EADs/LGDs are assigned at a product level; and only in some cases at an exposure level.

Retail PD models
Application and behavioural scorecards are most commonly used for retail PD modelling:

- **Application scorecards** are derived from historically observed performance of new clients. They are built using customer demographic and financial information, supplemented by credit bureau information where available. Through statistical techniques (known as regression analysis), the relationship between these candidate variables and the default marker is quantified to produce output scores reflecting a PD. These scores are used primarily for new customer decisioning but are, in some cases, also used to allocate a PD to new customers for the purpose of capital calculation.
- **Behavioural scorecards** differ from application scorecards in that they also use the historically observed performance of existing clients. The output scores are used for existing customer management activities as well as for allocating a PD to existing customers for the purpose of capital calculation.

Retail LGD models
Retail LGD models are built using bespoke methods chosen to best model the operational recovery process and practices. In a number of secured portfolios, LGD drivers are parameterised with market factors (e.g. house price indices) and so are able to capture market trends. For most unsecured portfolios, where recoveries are not based on collateral, statistical models of cash flows are used to estimate ultimate recoveries and LGDs. In all instances, cash flows are discounted to the point of default by using bespoke country and product level factors. For capital calculations, customised economic downturn adjustments are made to adjust losses to stressed conditions.

Retail EAD models
EAD models within retail portfolios are split into two main methodological categories. The general methodology is to derive product level credit conversion factors (CCFs) from historical balance migrations. These are frequently further segmented at a delinquency bucket level. The most sophisticated EAD models are based on behavioural factors, determining customer level CCFs from characteristics of the individual facility. For capital calculations, customised downturn adjustments are made to adjust for stressed conditions.

The control mechanisms for the rating system

Model risk is the potential for adverse consequences (e.g. financial loss, reputational impact, regulatory censure etc) from decisions based on incorrect or misused model outputs and reports. This can arise from fundamental model weaknesses leading to inaccurate outputs, errors in implementation, or incorrect or inappropriate use. Model risk has been identified as a risk to be managed under the ERMF.

Policies are in place to support the management of risk models by providing detailed requirements around the main risk factors:

- **Data and input processing:** Whether the data used in model building, validation and monitoring is relevant and of sufficient quality;
- **Design/conceptual soundness:** Assesses whether of the underlying design, theory and logic is driven by the intended use, is mathematically accurate and leads to expected results;
- **Implementation and system control:** Whether the model was implemented correctly, so that it behaves in the way it was intended. This also covers the risk of the model environment being changed without proper controls by authorised personnel;
- **Model use and performance:** This is assessed as part of the monitoring and validation process (see page 123); and
- **Model governance:** This covers all other areas of compliance with internal policy and external requirements, for instance breaches in the model risk policy or the application of post model adjustments.

Governance structure

The ownership structure around model risk is organised around clear delineation of roles and responsibilities and model materiality.

To apply the governance standards, an independent unit validates the models. Reports are then taken through a technical and business committee, where model owners, practitioners and technical experts discuss performance issues. Depending on the models' materiality, the model is reviewed by more senior committees. Note that externally developed models are subject to the same governance standards as internal models, and must be approved for use following the validation and independent review process. External models are also subject to the same standards for ongoing monitoring and annual validation requirements.

To ensure that the governance process is effective, and that management time is focused on the more material models, each model is assigned a materiality rating. The policies define the materiality ranges for all model types, based on an assessment of the impact that a model error would have on the Group. The list of models classified as 'High' materiality is agreed annually by the Executive Models Committee (that includes the CRO and CFO).

Higher level of sign-off is required for more material models. Furthermore, there are independent validation units at business and Group (for the most material levels) that specialise in reviewing models.

The Group ensures that senior executives at Group level (including the CRO, Credit Risk Director and Wholesale and Retail Credit Risk Directors) as well as in the businesses (including CEOs and managing directors in the relevant areas) understand the operation and design of the rating system used to assess and manage credit risk. This enables them to carry out their responsibilities effectively.

If a model is found to perform sub-optimally, it may be subjected to a Post Model Adjustment (PMA) before approval for continued use is granted.

Validation of new models

The same validation standards are applied to each model sign-off, irrespective of model materiality. This process ensures that the most significant models are subject to the most rigorous review, and that senior management has a good understanding of the most material models in the Group.

The model risk policies set detailed standards that a model must meet during development and subsequent use. For new models, documentation must be sufficiently detailed to allow an expert to understand all aspects of model development such that they could reproduce the model. It must include a description of the data used for model development, the methodology used (including the rationale for choosing such a methodology), a description of any assumptions made, and details of the limitations and assumptions of the model.

All new models are subject to independent validation before they can be signed off for implementation. The independent validation exercise must demonstrate that the models are performing as expected, in line with their design objectives and business uses. Performance checks include:

- Model has its intended use, performance and limitations communicated to all relevant users and stakeholders;
- The model is built to represent real-world interactions as closely and transparently as possible;
- It is documented to allow others to assess choice of methodology, to replicate key analyses and to assess the validity of assumptions;
- Implemented in a timely manner and continuously maintained ensuring use in the manner intended;
- Pre-notify the relevant regulators. Note that models are only authorised for use in calculating regulatory capital once the regulators have performed all reviews and checks that they deem necessary; and
- Models cannot be used until all relevant approvals are obtained.

Validation of existing models

To ensure that models continue to perform as expected and remain within the design objective and business use, and are not incorrectly implemented (for instance if the model was migrated to a new system without proper oversight), regular validations must take place. The models must:

- Be regularly challenged, tested and verified to pass the tests for 'fit for purpose' and continued use;
- Be monitored regularly to prove that they measure and perform as intended;
- Have any-related material issues put forward to the relevant committee for discussion and resolution; and
- All implemented models within the Group are subject to ongoing performance monitoring to ensure that any deficiencies are identified early, and that remedial action can be taken before the decision-making process is affected. For instance:
  - The models can be reweighted to reflect a different influencing factors distribution; and

– Buffers can be put in place to drive more conservative capital calculations, and taking account of the impact on decision processes involving risk, pricing and reporting.

In addition to regular monitoring, models are subject to an annual validation process to ensure that they will continue to perform as expected, and that assumptions used in model development are still appropriate. In line with initial sign-off requirements, annual validations are also formally reviewed at the appropriate technical committee.

Within the Investment Bank, models that are used to value positions within the trading book are subject to regular independent price testing. Prices are compared with direct external market data where possible. When this is not possible, analytical techniques are used, such as industry consensus pricing services. These services enable peer banks to compare structured products and model-input parameters on an anonymous basis. The conclusions and any exceptions to this exercise are communicated to senior levels of business management.

Table 71 for credit risk model characteristics shows modelled variables to calculate RWAs (PD, LGD, and EAD) at portfolio level, with number of models and their significance in terms of RWAs, model method or approach, numbers of years of data used, Basel asset class of the customer or client, and regulatory thresholds applied. It is Group policy to validate the models on an annual basis.

Selected features of material models

The table on the next page contains selected features of the Group's most material credit risk models:

- PD models listed in the table account for £105.2bn, or 52.5% of total IRB approach RWAs, including Advanced and Foundation;
- LGD models listed in the table, that are only applicable to the Advanced IRB approach, account for £124.3bn, or 66.0% of Advanced IRB approach RWAs; and
- EAD models listed in the table, that are also only applicable to the Advanced IRB approach, account for £105.1bn, or 55.8% of Advanced IRB approach RWAs.

Table 71: IRB credit risk models selected features

Component modelled	Business unit	Portfolio	Size of associated portfolio (RWAs)	Model description and methodology	Number of years loss data	Exposure class	Applicable industry-wide regulatory thresholds
PD	Investment Bank Barclays Non-Core Personal & Corporate Banking Africa Banking	Publicly traded corporates	£22.4bn	Statistical model using a Merton-based methodology. It takes quantitative factors as inputs.	>10 years	Corporates	PD floor of 0.03%
	Investment Bank Barclays Non-Core Treasury Personal & Corporate Banking Africa Banking	Customers rated by Moody's and S&P	£30.7bn	Rating Agency Equivalent model converts agency ratings into estimated equivalent PIT default rates using credit cycles based on KMV EDF data.	>10 years	Corporate, Financial institutions and Sovereigns	PD floor of 0.03% for corporates and institutions
	Investment Bank Barclays Non-Core Personal & Corporate Banking	Corporate and SME customers with turnover < £20m	£5.6bn	Statistical model that uses regression techniques to derive relationship between observed default experience and a set of behavioural variables.	6-10 years	Corporates Corporate SME Retail SME	PD floor of 0.03%
	Investment Bank Barclays Non-Core Personal & Corporate Banking	Corporate customers with turnover >= £20m	£8.6bn	Statistically derived model sourced from an external vendor (Moody's KMV).	6-10 years	Corporate Corporate SME	PD floor of 0.03%
	Personal & Corporate Banking	Home finance	£11.5bn	Statistical scorecards estimated using regression techniques, segmented along arrears status and portfolio type. They are further calibrated against long-run industry default data.	>10 years	Retail mortgages (residential and buy-to-let mortgages)	PD floor of 0.03%
	Personal & Corporate Banking	SME customers with turnover < £1m	£3.5bn	Statistical scorecards estimated using regression techniques, segmented according to 'time on book' and arrears status.	>10 years	Mainly used for Retail SME	PD floor of 0.03%
	Barclays Non-Core	Spain mortgages	£2.7bn	Statistical scorecards estimated using regression techniques, segmented by behaviour score at application.	6-10 years	Retail mortgages	PD floor of 0.03%
	Barclaycard	Barclaycard UK	£15.3bn	Statistical scorecards estimated using segmented regression techniques.	6-10 years	Retail QRRE	PD floor of 0.03%
	Africa Group	Absa Home Loans	£2.5bn	Statistical scorecards calibrated against long-run default data.	6-10 years	Retail mortgages (residential and buy-to-let mortgages)	PD floor of 0.03%
LGD	Investment Bank Barclays Non-Core Treasury Personal & Corporate Banking	Corporates and Financial institutions	£48.7bn	Model based on a statistical regression that outputs a long run average LGD and a downturn LGD by estimating the expected value of recovery. Inputs include industry, seniority, instrument, collateral and country.	>10 years	Corporate Financial institutions	
	Investment Bank Barclays Non-Core Treasury	Sovereign entities	£10.4bn	A statistical regression is used to identify factors, sourced from Economic Intelligence Unit (EIU) and International Monetary Fund (IMF), that are relevant to the estimation of LGDs. Countries are scored against these factors, and the impact of the scores on LGD is regularly reviewed against actual experience.	>10 years	Sovereign	Subject to a regulatory floor of 45% for sovereign exposure.
	Personal & Corporate Banking	All business customers (excluding certain specialised sectors)	£26.5bn	Model is based on a function estimated using actual recoveries experience. It takes account of collateral value and an allowance for non-collateral recovery.	>10 years	Corporates Corporate SME Retail SME	

Table 71: IRB credit risk models selected features continued

Component modelled	Business unit	Portfolio	Size of associated portfolio (RWAs)	Model description and methodology	Number of years loss data	Exposure class	Applicable industry-wide regulatory thresholds
LGD	Personal & Corporate Banking	Home finance	£11.5bn	Data driven estimates of loss and probability of possession.	6-10 years	Retail mortgages (residential and buy-to-let mortgages)	The portfolio average downturn LGD is floored at 10%.
	Barclays Non-Core	Spain mortgages	£2.7bn	Data driven estimates of loss and probability of possession.	6-10 years	Retail mortgages	The portfolio average downturn LGD is floored at 10%.
	Barclaycard	Barclaycard UK	£15.3bn	Statistical models combining segmented regression and other forecasting techniques.	6-10 years	Retail QRRE	
	Africa Group	Absa Home Loans	£2.5bn	A data driven statistical approach estimates loss and probability of possession complemented with expert judgment where appropriate.	6-10 years	Retail mortgages (residential and buy-to-let mortgages)	LGD floor of 10% at portfolio level
EAD	Investment Bank Barclays Non-Core Treasury	Corporates and Financial institutions	£41.5bn	The model applies product type specific Credit Conversion Factors (CCFs) and Product Credit Conversion Factors (PCCFs) to the drawn and undrawn amounts, consistent with experience. Where there is insufficient data, the entire drawn and undrawn amount is applied.	>10 years	Corporate Financial institutions	EAD must be at least equivalent to current balance utilisation at account level.
	Personal & Corporate Banking	All business customers (excluding certain specialised sectors)	£36.4bn	Model estimates the proportion of undrawn exposures that would be used in a default situation, based on a statistical analysis of actual experience and dependent on factors such as product type and industry of the obligor. Expert judgment is used for off balance sheet products.	6-10 years	Corporates Corporate SME Retail SME Institutions	EAD must be at least equivalent to current balance utilisation at account level.
	Personal & Corporate Banking	Home finance	£11.5bn	Split by Main Mortgage and Reserve Mortgage. Uses statistical model to calculate Reserve Mortgage.	>10 years	Retail mortgages (residential and buy-to-let mortgages)	EAD must be at least equivalent to current balance utilisation at account level.
	Barclays Non-Core	Spain mortgages	£2.7bn	Product-dependent calculation validated using historical data.	6-10 years	Retail mortgages	EAD must be at least equivalent to current balance utilisation at account level.
	Barclaycard	Barclaycard UK	£15.3bn	Model uses segmented statistical regression.	6-10 years	Retail QRRE	EAD must be at least equivalent to current balance utilisation at account level.
	Africa Group	Absa Home Loans	£2.5bn	Statistical approach using historic data to determine a credit conversion factor, which is applied to the non-defaulted assets in appropriate cohorts to forecast EAD.	3-5 years	Retail mortgages (residential and buy-to-let mortgages)	EAD must be at least equivalent to current balance utilisation at account level.

Credit model performance – estimated versus actual
The following table indicates the forecast PD, LGD and EAD from the IRB exposure models. They are compared with data from actual defaults. These comparisons are used to help assess whether the models are fit for purpose.

The PDs relate to the portfolios managed following the Advanced and Foundation IRB approaches. Individual portfolio PDs within an exposure class have been weighted at the same level as they were estimated (usually obligor or facility) to yield average PDs. The LGD percentages and EAD ratios are based on defaulted assets in Advanced approach portfolios (the Foundation approach does not estimate these figures but uses parameters stipulated by PRA regulations).

Difference with values used as inputs to the capital calculation

The forecasts shown in the table are based on the Group's model calibrations using estimates as at the start of the twelve-month period compared with the actuals as at the end. The estimates and actuals represent the direct output from the models rather than outputs used in regulatory capital calculations that may be adjusted to apply more conservative assumptions to reflect:

- PD values on a TTC basis factoring in the long-run default rate in comparison to the annual default rate presented in this table; LGD on a downturn basis, reflecting the impact of stress on collateral recovery; and
- Minimum values for certain parameters typically that imply higher severity than modelled and observed values. For example, retail loans secured by real estate collateral have a regulatory minimum LGD of 10%.

Note that post-model adjustments are applied only when they have the effect of increasing capital requirements.

Estimated versus actual analysis at Barclays

Risk models are subject to the Group's Risk Model policy that contains detailed guidance on the minimum standards for model development. For instance, PDs must be estimated over a sufficient period, show sufficient differentiation in predictions for different customers, show conservatism where data limitations exist, and follow prescriptive techniques. These standards are achieved via an independent validation process (using appropriately independent experts). Once validated and correctly implemented, models are subject to regular monitoring to ensure they can still be used. Comparing model estimates with actual default rates for PD and loss rates for LGD form part of this monitoring.

Further detail is provided in the management of model risk on page 106.

PD measures

- Estimated PDs are simple averages at the level of single exposures (usually facilities for retail asset classes, and obligors for wholesale asset classes), for the total portfolio population. The estimate is a forward-looking average PD modelled at the beginning of the twelve-month period
- The PIT PD is used as a predicted measure in internal monitoring and annual validation of the models. In contrast, the capital calculation uses TTC PDs (not shown above), calibrated to long-run default averages with additional adjustments where modelled outputs display evidence of risk understatement (including credit expert overrides, regulatory adjustments, Basel 3 add-ons). Some retail portfolios use TTC PDs for this analysis, and these are also subject to regulatory adjustments, though only in cases where such adjustments increase the overall RWAs. The PIT measure is subject to under or over prediction depending on the relative position of the portfolio to the credit cycle
- Actual PD is the default rate for each asset class, which is the ratio of the defaulted population to the total population over the previous twelve months in terms of unit of exposure.

Average LGD measures

- Estimated LGDs are derived from simple averages at facility or customer level at the time of default for the set of closed cases over the previous twelve months
- The PIT LGD measures are used as a predicted measure in internal monitoring and annual validation of the models. The capital calculation uses downturn LGDs (not shown above) with additional adjustments where modelled outputs display evidence of risk understatement (including credit expert overrides, regulatory adjustments, and Basel 3 add-ons)
- The actual LGD rate is the simple average observed loss rates of all the closed cases during the previous twelve months, regardless of the time of default.

EAD ratio is calculated as the estimated EAD as a proportion of the actual EAD for the defaulted population.

Table 72: Analysis of expected performance versus actual results

This table provides an overview of credit risk model performance assessed through the analysis of average PDs, average LGDs and EAD ratios.

The table compares the raw model output to the actual experience in our portfolios. Such analysis is used to assess and enhance the adequacy and accuracy of models.

The raw outputs are subject to a number of adjustments before they are used in the calculation of capital, for example to allow for the position in the credit cycle and the impact of stress on recovery rates.

IRB Exposure Class\Year	PD of total portfolio		LGD of defaulted assets		EAD of defaulted assets
	Estimated %	Actual %	Estimated %	Actual %	Estimated to actual ratio
As at 31 December 2014					
Wholesale					
Central governments or central banks					
– Investment Bank	0.42	–	–	–	–
– Corporate Banking	–	–	–	–	–
– Africa Group	0.32	–	n/a	n/a	n/a
Institutions					
– Investment Bank	0.24	–	–	–	–
– Corporate Banking	0.02	–	–	–	–
– Africa Group	0.26	–	n/a	n/a	n/a
Corporates					
– Investment Bank	0.79	0.08	38	25	0.96
– Corporate Banking	2.60	1.30	37	22	1.29
– Africa Group	1.50	2.15	n/a	n/a	n/a
Retail					
SME	6.58	5.15	78	78	1.07
Secured by real estate collateral UK	0.52	0.43	3	2	1.02
Secured by real estate collateral Rest of World	2.20	2.37	9	23	1.02
Qualifying revolving retail	1.78	1.86	78	72	0.99
Other retail	6.28	5.86	66	58	1.02
As at 31 December 2013					
Wholesale					
Central governments or central banks					
– Investment Bank	0.31	–	–	–	–
– Corporate Banking	–	–	–	–	–
– Africa Group	0.41	–	n/a	n/a	n/a
Institutions					
– Investment Bank	0.80	0.02	–	–	–
– Corporate Banking	0.43	–	–	–	–
– Africa Group	0.52	–	n/a	n/a	n/a
Corporates					
– Investment Bank	1.27	0.48	67	60	1.02
– Corporate Banking	2.14	2.50	40	28	1.05
– Africa Group	1.16	3.19	n/a	n/a	n/a
Retail					
SME	7.15	5.89	79	72	1.08
Secured by real estate collateral UK	0.61	0.49	3	2	1.02
Secured by real estate collateral Rest of World	1.85	2.09	9	23	1.03
Qualifying revolving retail	1.58	1.68	78	72	1.00
Other retail	6.39	6.07	64	67	1.07

Developments in 2014

Changes in estimated and actual credit risk metrics are largely driven by the business environment and the Group's lending strategy, as detailed in this report. Additionally, management of IRB models and changes in regulatory approaches can have an impact as discussed below:

Central governments or central banks

- The estimated PD for the Investment Bank portfolio increased as high-quality sovereign and sovereign-backed exposures were reclassified to the Standardised approach in line with new Basel rules, leaving a population of comparatively lower credit quality.

Institutions

- The decrease in the estimated PD over the year in the Investment Bank is due to the decommissioning of the hedge fund model for IRB calculation purposes
- Yearly fluctuations in the Corporate Banking estimated PD can be attributed to the small size of the population
- The decrease in Africa Banking estimated PD is due to normal fluctuations given the portfolio's small size and changes to the modelling approach that better reflects the risk.

Corporates

- The estimated PD in the Investment Bank has decreased in 2014 due to the removal of specialised lending exposures (now assessed using the slotting approach; see page 56) that have relatively high PDs as reflected in previous years
- Estimated PD for the Corporate Bank has increased over the year due to the reclassification of medium-sized clients to this asset class. In addition, estimated PD is high compared with actual PD driven by the Corporate SME sub-class. This is due to the fact that not all types of defaults are captured within the actual measure until a lag of one year has elapsed
- The ratio of EAD of defaulted assets to actual balances for the Corporate Bank is over predicted following a re-segmentation of the population. The model is being re-calibrated as a result
- The under prediction of the PD for Africa Banking is compensated by RWA adjustments; the two models that drive this are being rebuilt.

SME

- Slight decrease due to reclassification of relatively low PD clients from SME Corporate to SME Retail.

Secured by real estate collateral – rest of world

- The under prediction of PD is driven by Africa Banking, due to data related issues. RWA adjustments are in place to compensate
- The under prediction of LGD is also due to Africa Banking. A new model is awaiting regulatory approvals. RWA adjustments are in place to compensate
- The 2014 analysis does not include Spain mortgages due to the sale of the Spanish business. Including the most recent model monitoring exercise results would not change the conclusions of the analysis.

Qualifying revolving retail

- The under prediction of PD is driven by Africa Banking, due to data related issues. RWA adjustments are in place to compensate.

IRB Exposure Class\Year	PD of total portfolio		LGD of defaulted assets		EAD of defaulted assets
	Estimated %	Actual %	Estimated %	Actual %	Estimated to actual ratio
As at 31 December 2012					
Wholesale					
Central governments or central banks					
– Investment Bank	0.36	–	–	–	–
– Corporate Banking	0.23	–	–	–	–
– Africa Group	0.74	–	n/a	n/a	n/a
Institutions					
– Investment Bank	0.97	0.02	–	–	1.43
– Corporate Banking	1.11	–	–	–	–
– Africa Group	1.05	–	n/a	n/a	n/a
Corporates					
– Investment Bank	1.65	0.31	44	15	1.08
– Corporate Banking	2.75	1.70	45	45	1.11
– Africa Group	1.85	2.15	n/a	n/a	n/a
Retail					
SME	7.06	5.91	68	72	1.06
Secured by real estate collateral UK	0.67	0.53	4	1	1.02
Secured by real estate collateral Rest of World	1.98	2.10	14	24	1.03
Qualifying revolving retail	1.64	1.77	84	83	1.02
Other retail	7.44	4.81	62	60	1.01
As at 31 December 2011					
Wholesale					
Central governments or central banks					
– Investment Bank	0.24	–	–	–	–
– Corporate Banking	n/a	n/a	n/a	n/a	n/a
– Africa Group	0.85	–	n/a	n/a	n/a
Institutions					
– Investment Bank	1.02	0.01	67	64	0.88
– Corporate Banking	0.87	0.38	–	–	1.00
– Africa Group	0.98	–	n/a	n/a	n/a
Corporates					
– Investment Bank	1.77	0.50	37	34	1.13
– Corporate Banking	3.53	1.76	50	51	1.06
– Africa Group	1.78	1.76	n/a	n/a	n/a
Retail					
SME	6.74	5.55	65	69	1.04
Secured by real estate collateral UK	0.68	0.57	4	1	1.02
Secured by real estate collateral Rest of World	2.13	2.84	8	15	1.02
Qualifying revolving retail	1.85	2.12	83	83	1.00
Other retail	7.89	6.36	63	60	1.01

IRB Exposure Class\Year	PD of total portfolio		LGD of defaulted assets		EAD of defaulted assets
	Estimated %	Actual %	Estimated %	Actual %	Estimated to actual ratio
As at 31 December 2010					
Wholesale					
Central governments or central banks					
– Investment Bank	0.36	–	–	–	–
– Corporate Banking	n/a	n/a	n/a	n/a	n/a
– Africa Group	1.06	–	n/a	n/a	n/a
Institutions					
– Investment Bank	1.00	0.01	48	37	–
– Corporate Banking	0.80	0.37	n/a	n/a	n/a
– Africa Group	0.95	–	n/a	n/a	n/a
Corporates					
– Investment Bank	2.23	0.45	44	45	0.98
– Corporate Banking	3.29	1.78	58	37	1.10
– Africa Group	1.24	0.70	n/a	n/a	n/a
Retail					
SME	6.59	6.91	64	65	1.13
Secured by real estate collateral UK	0.71	0.59	4	1	1.02
Secured by real estate collateral Rest of World	4.27	3.62	5	14	1.03
Qualifying revolving retail	2.18	2.12	79	85	1.04
Other retail	7.36	6.96	56	59	1.01

Note that some of the data underlying the table follows the business model monitoring cycle that does not precisely coincide with year ends; we do not consider this introduces a bias in a particular direction.

Note that LGD and EAD for Foundation IRB portfolios (wholesale Absa asset classes) are prescribed measures and not derived using credit risk models, hence do not form part of this report.

Management of credit risk mitigation techniques and counterparty credit risk

Counterparty credit risk arises from derivatives and similar contracts. This section details the specific aspects of the risk framework related to this type of credit risk. As credit risk mitigation is one of the principal uses of derivative contracts by banks, this is also discussed in this section.

- On page 135 a high level description of the types of exposures incurred in the course of Barclays' activity supplements the analytical tables in pages 67 to 70
- Mitigation techniques specific to counterparty credit risk are also discussed
- A more general discussion of credit risk mitigation (covering traditional credit risks) is also included from page 133

Credit risk mitigation

The Group employs a range of techniques and strategies to actively mitigate credit risks to which it is exposed. These can broadly be divided into three types:

- Netting and set-off;
- Collateral; and
- Risk transfer.

The Group has detailed policies in place to ensure that credit risk mitigation is appropriately recognised and recorded. The recognition of credit risk mitigation is subject to a number of considerations, including ensuring legal certainty of enforceability and effectiveness, ensuring the valuation and liquidity of the collateral is adequately monitored, and ensuring the value of the collateral is not materially correlated with the credit quality of the counterparty.

All three types of credit risk mitigation may be used by different areas of the Group for exposures with a full range of counterparties. For instance, Investment Bank, Corporate Banking and other business areas may all take property, cash or other physical assets as collateral for exposures to retailers, property companies or other client types.

Netting and set-off

In most jurisdictions in which the Group operates, credit risk exposures can be reduced by applying netting and set-off. In exposure terms, this credit risk mitigation technique has the largest overall impact on net exposure to derivative transactions compared with other risk mitigation techniques.

For derivative transactions, the Group's normal practice is to enter into standard master agreements with counterparties (e.g. ISDA). These master agreements allow for netting of credit risk exposure to a counterparty resulting from a derivative transaction against the Group's obligations to the counterparty in the event of default, to produce a lower net credit exposure. These agreements may also reduce settlement exposure (e.g. for foreign exchange transactions) by allowing for payments on the same day in the same currency to be set-off against one another.

Under IFRS, netting is permitted only if both of the following criteria are satisfied:

- The entity currently has a legally enforceable right to set-off the recognised amounts; and
- The entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Under US GAAP, netting is also permitted, regardless of a currently legally enforceable right of set-off and/or the intention to settle on a net basis, where there is a counterparty master agreement that would be enforceable in the event of bankruptcy.

Collateral

The Group has the ability to call on collateral in the event of default of the counterparty, comprising:

- **Home loans:** a fixed charge over residential property in the form of houses, flats and other dwellings. The value of collateral is impacted by property market conditions which drive demand and therefore value of the property. Other regulatory interventions on ability to repossess, longer period to repossession and granting of forbearance may also affect the collateral value;
- **Wholesale lending:** a fixed charge over commercial property and other physical assets, in various forms;
- **Other retail lending:** includes charges over motor vehicle and other physical assets; second lien charge over residential property, which is subordinate to first charge held either by the Group or by another party; and finance lease receivables, for which typically the Group retains legal title to the leased asset and has the right to repossess the asset on the default of the borrower;
- **Derivatives:** the Group also often seeks to enter into a margin agreement (e.g. Credit Support Annex (CSA)) with counterparties with which the Group has master netting agreements in place. These annexes to master agreements provide a mechanism for further reducing credit risk, whereby collateral (margin) is posted on a regular basis (typically daily) to collateralise the mark to market exposure of a derivative portfolio measured on a net basis. The Group may additionally negotiate the receipt of an independent amount further mitigating risk by collateralising potential mark to market exposure moves;
- **Reverse repurchase agreements:** collateral typically comprises highly liquid securities which have been legally transferred to the Group subject to an agreement to return them for a fixed price; and
- **Financial guarantees and similar off-balance sheet commitments:** cash collateral may be held against these arrangements.

For details of the fair value of collateral held please refer to maximum exposure table in the Credit risk performance section of the 2014 Annual Report. For detail of collateral in credit portfolios see pages 157 to 166 of the 2014 Annual Report.

In exposure terms, the main portfolios that the Group takes collateral for are home loans and reverse repurchase agreements with financial institutions.

Floating charges over receivables

The Group may also obtain collateral in the form of floating charges over receivables and inventory of corporate and other business customers. The value of this collateral varies from period to period depending on the level of receivables and inventory. It is impracticable to provide an estimate of the amount (fair value or nominal value) of this collateral. The Group may in some cases obtain collateral and other enhancements at a counterparty level, which are not specific to a particular class of financial instrument. The fair value of the credit enhancement gained has been apportioned across the relevant asset classes.

Collateral for derivative contracts

The collateral obtained for derivatives is predominantly either cash or government bonds (G7 and other highly rated governments). Appropriate haircuts may be applied to non-cash collateral which will be agreed when the margin agreement (e.g. CSA) is negotiated.

Valuation of collateral and impact of market moves

Typically assets other than cash are subject to regular revaluation (for example via physical review, linking to an external index or depreciation of the asset) to ensure they continue to achieve appropriate mitigation of risk. Customer agreements often include requirements for provision of additional collateral should valuations decline or credit exposure increase, for example due to market moves impacting a derivative exposure.

The carrying value of non-cash collateral reflects the fair value of the physical assets limited to the carrying value of the asset where the exposure is over-collateralised. In certain cases, where active markets or recent valuations of the assets are not available, estimates are used. For assets collateralised by residential or commercial property (and certain other physical assets), where it is not practicable to assess current market valuations of each underlying property, values reflect historical fair values updated for movements in appropriate external indices. For further information on LTV ratios in principal home loans portfolios see the Credit risk performance section of the 2014 Annual Report.

Liens over fluctuating assets such as inventory and trade receivables, known as floating charges, over the assets of a borrower are monitored annually. The valuation of this type of collateral takes into account the ability to establish objectively a price or market value, the frequency with which the value can be obtained (including a professional appraisal or valuation), and the volatility or a proxy for the volatility of the value of the collateral.

For assets collateralised by traded financial instruments, values reflect MTM or mark to model values of those assets, applying a haircut where appropriate. A haircut is the valuation percentage applicable to each type of collateral and will be largely based on liquidity and price volatility of the underlying security.

Valuation of collateral – property

When property is taken as collateral it is monitored to establish whether the current value is less than its value at origination. Monitoring is undertaken annually for commercial property or via linking to an external index for residential property. More frequent monitoring may be carried out where the property sector is subject to significant deterioration.

Deterioration is monitored principally by geography. Specific exercises to monitor property values may be undertaken where the property sector in a given geography has been subject to significant deterioration and where the Group has a material concentration of property collateral.

Monitoring may be undertaken either at a portfolio level (typically retail) or at an individual level (typically wholesale).

In retail businesses, monitoring on a portfolio level refers to a more frequent process of indexing collateral values on each individual loan, using a regional or national index, and updating LGD values. This monitoring may be a desk top assessment and need not necessarily include physical assessment of properties. In the event of charge-off, an individual valuation of the property is undertaken within 3 months of the charge-off event and subsequently undertaken at least every six months whilst in charge-off.

In wholesale, monitoring is undertaken by individuals who are not part of the sales / relationship part of the business. Where an appropriate local index is not available, property values are monitored on an individual basis as part of the annual review process for the loan. For larger loans, in addition to the regular annual review, the property value is reviewed by an independent valuer at least once every three years. This review is a more detailed assessment than the standard property monitoring review, and may include a fresh professional valuation. In addition, an independent valuer reviews the property valuation where information indicates that the value of the property may have declined materially relative to general market prices. In addition, trigger points are defined under which property values must be reviewed.

Valuation of collateral – distressed assets

The net realisable value from a distressed sale of collateral obtained by the Group upon default or insolvency of counterparty will in some cases be lower than the carrying value recognised. Assets obtained are normally sold, generally at auction, or realised in an orderly manner for the maximum benefit of the Group, the borrower's other creditors and the borrower in accordance with the relevant insolvency regulations. For business customers, in some circumstances, where excess funds are available after repayment in full of the outstanding loan, they are offered to any other, lower ranked, secured lenders. Any additional funds are returned to the borrower. The Group does not occupy repossessed properties for its business use or use assets obtained in its operations.

Additional revaluations are usually performed when a loan is moved to EWL or WL. Exceptions to this may be considered where it is clear a revaluation is not necessary, for instance where there is a very high margin of security or a recent valuation has been undertaken. Conversely, a material reduction in the value of collateral held represents an increase in credit risk and will often cause a loan to be placed on the EWL or WL.

Any one of the above events may also trigger a test for impairment, depending on individual circumstances of the loan. When calculating impairment, the difference between an asset's carrying amount and the present value of all estimated cash flows discounted at the original effective interest rate will be recognised as impairment. Such cash flows include the estimated fair value of the collateral which reflects the results of the monitoring and review of collateral values as detailed above and valuations undertaken as part of the Group's impairment process.

Whether property values are updated as part of the annual review process, or by indexation of collateral values, the updated collateral values feed into the calculation of risk parameters which, in turn, feed into identified and unidentified impairment calculations at each balance sheet date.

Trends in LLRs incorporate the impact of any decrease in the fair value of collateral held.

Risk transfer

A range of instruments including guarantees, credit insurance, credit derivatives and securitisation can be used to transfer credit risk from one counterparty to another. These mitigate credit risk in two main ways:

- If the risk is transferred to a counterparty which is more credit worthy than the original counterparty, then overall credit risk will have been reduced; and
- Where recourse to the first counterparty remains, both counterparties must default before a loss materialises. This will be less likely than the default of either counterparty individually so credit risk is reduced.

Risk transfer can also be used to reduce risk concentrations within portfolios lowering the impact of stress events.

Risk transfer transactions are undertaken with consideration to whether the collateral provider is correlated with the exposure, the creditworthiness of the collateral provider and legal certainty of enforceability and effectiveness. Where credit risk mitigation is deemed to transfer credit risk, this exposure is appropriately recorded against the credit risk mitigation provider.

In exposure terms, risk transfer is used most extensively as a credit risk mitigation technique for wholesale loans and derivative financial instruments.

Off-balance sheet risk mitigation

The Group applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, counterparties/customers will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Recognition of credit risk mitigation in capital calculations

Credit risk mitigation is used to reduce credit risk associated with an exposure, which may reduce potential losses in the event of obligor default or other specified credit event.

Credit risk mitigation that meets certain regulatory criteria may be used to improve risk parameters and reduce RWA consumption against a given obligor. Collateral that meets these regulatory conditions is referred to as eligible collateral. Eligibility criteria are specified in articles 195 to 204 of the Capital Regulations Requirement (CRR).

The Group's policies and standards set out criteria for the recognition of collateral as eligible credit risk mitigation and are designed to be fully consistent with all applicable local regulations and regulatory permissions.

Where regulatory capital is calculated under AIRB regulations the benefit of collateral is generally taken by adjusting LGDs. For standardised portfolios the benefit of collateral is taken using the financial collateral comprehensive method: supervisory volatility adjustments approach.

For instruments that are deemed to transfer credit risk, in AIRB portfolios the protection is generally recognised by using the PD and LGD of the protection provider.

For exposures treated under the Standardised approach, the impact of eligible credit risk mitigation is primarily recognised by reducing the EAD associated with the exposure that benefits from the mitigation.

Managing concentrations within credit risk mitigation
Credit risk mitigation taken by the Group to reduce credit risk may result in credit or market risk concentrations.

Guarantees that are treated as eligible credit risk mitigation are marked as an exposure against the guarantor and aggregated with other credit exposure to the guarantor. Limit monitoring at the counterparty level is then used for monitoring of concentrations in line with Group policy.

Commercial real estate lending is another potential source of concentration risk arising from the use of credit risk mitigation. The portfolio is regularly reviewed to assess whether a concentration in a particular region, industry or property type exists, and portfolio limits are in place to control the level of exposure to commercial, residential, investment and development activity. See pages 133 to 135 for more information on collateral, valuation and monitoring of concentrations.

Counterparty credit risk

Derivative counterparty credit exposures
The Group enters into financial instruments that are traded or cleared on an exchange, including interest rate swaps, futures and options on futures. Holders of exchange traded instruments provide daily margins with cash or other securities at the exchange, to which the holders look for ultimate settlement.

The Group also enters into financial instruments that are traded over the counter, rather than on a recognised exchange. These instruments range from standardised transactions in derivative markets, to trades where the specific terms are tailored to the requirements of the Group's counterparties. In most cases, industry standard documentation is used, most commonly in the form of a master agreement, with individual transaction confirmations. The existence of a signed master agreement is intended to give the Group protection in situations where the Group's counterparty is in default.

Counterparty credit exposure arises from the risk that parties are unable to meet their payment obligations under certain financial contracts such as derivatives, securities financing transactions (e.g. repurchase agreements), or long settlement transactions.

A Monte Carlo simulation engine is used to estimate the Potential Future Exposure (PFE) to derivative and securities financing counterparties. The exposure simulation model simulates future market states and the MTM of the derivative transactions under those states. Simulated exposures including the effect of credit mitigants such as netting, collateral and mandatory break clauses can then be generated.

Credit limits for CCR are assessed and allocated using the PFE measure. A number of factors are taken into account when setting credit limits for individual counterparties, including but not limited to the credit quality and nature of the counterparty the rationale for the trading activity entered into and any wrong-way risk considerations.

The expected exposures generated by this engine are also used as an input into both internal and regulatory capital calculations covering CCR.

'Wrong-way risk' in a trading exposure arises when there is significant correlation between the underlying asset and the counterparty, which in the event of default would lead to a significant MTM loss to the counterparty. Specific wrong-way risk trades, which are self-referencing or reference to other entities within the same counterparty group, require approval by a senior credit officer. The exposure to the counterparty will reflect the additional risk generated by these transactions.

Derivative CCR (credit value adjustments)
As the Group participates in derivative transactions it is exposed to CCR, which is the risk that a counterparty will fail to make the future payments agreed in the derivative contract. This is considered as a separate risk to the volatility of the MTM payment flows. Modelling this counterparty risk is an important part of managing credit risk on derivative transactions.

The counterparty risk arising under derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the value is known as credit value adjustment (CVA). It is the difference between the value of a derivative contract with a risk-free counterparty and that of a contract with the actual counterparty. This is equivalent to the cost of hedging the counterparty risk in the Credit Default Swap (CDS) market.

CVAs for derivative positions are calculated as a function of the expected exposure, which is the average of future hypothetical exposure values for a single transaction or group of transactions with the same counterparty, the credit spread for a given horizon and the LGD.

The expected exposure is calculated using Monte Carlo simulations of risk factors that may affect the valuation of the derivative transactions in order to simulate the exposure to the counterparty through time. These simulated exposures include the effect of credit mitigants such as netting, collateral and mandatory break clauses. Counterparties with appropriate credit mitigants will generate a lower expected exposure profile compared to counterparties without credit mitigants in place for the same derivative transactions.

Derivative netting and collateral arrangements
Credit risk from derivatives is mitigated where possible through netting agreements whereby derivative assets and liabilities with the same counterparty can be offset. Group policy requires all netting arrangements to be legally documented. The ISDA Master Agreement is the Group's preferred agreement for documenting OTC derivatives. It provides the contractual framework within which dealing activities across a full range of OTC products are conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other predetermined events occur. The majority of the Group's OTC derivative exposures are covered by ISDA master netting and ISDA CSA collateral agreements.

Collateral is obtained against derivative assets, depending on the creditworthiness of the counterparty and/or nature of the transaction. Any collateral taken in respect of OTC trading exposures will be subject to a 'haircut', which is negotiated at the time of signing the collateral agreement. A haircut is the valuation percentage applicable to each type of collateral and will be largely based on liquidity and price volatility of the underlying security. The collateral obtained for derivatives is predominantly either cash, direct debt obligation government (G14+) bonds denominated in the domestic currency of the issuing country, debt issued by supranationals or letters of credit issued by an institution with a long-term unsecured debt rating of A+/A3 or better. Where the Group has ISDA master agreements, the collateral document will be the ISDA CSA. The collateral document must give Barclays the power to realise any collateral placed with it in the event of the failure of the counterparty.

Management of market risk

This section describes the governance structure specific to the management of market risks, as well as a discussion of measurement techniques.

- Market risks are varied, and a range of techniques must be used to manage them. From page 137 we provide an overview of the market risks we incur across the Group
- The governance structure specific to market risks is discussed on pages 137 to 139.

The rest of the section is divided into traded, non-traded and other risks:

- Traded market risk, the risk of the Group being impacted by changes in the level or volatility of positions in the trading book, is covered on pages 139 to 144. Measurement techniques, such as VaR, are discussed, as well as techniques applied when statistical techniques are not appropriate
- Non-traded market risks, the risk that the Group is unable to hedge its banking book, mainly arising as a result of lending and deposit taking activities, are discussed from 145 to 146, along with a discussion of how they are managed
- Other market risks, such as those associated with Barclays pension obligations, are analysed separately from page 146.

Management of market risk

Introduction to the management of market risk

The risk of a reduction to earnings or capital due to volatility of the trading book positions or an inability to hedge the banking book balance sheet.

Overview

Traded market risk

Traded market risk arises primarily as a result of client facilitation in wholesale markets, involving market making activities, risk management solutions and execution of syndications. Upon execution of a trade with a client, the Group will look to hedge against the risk of the trade moving in an adverse direction. Mismatches between client transactions and hedges result in market risk due to changes in asset prices.

Non-traded market risk

Banking book operations generate non-traded market risk, primarily through interest rate risk arising from the sensitivity of net interest margins to changes in interest rates. As the principal banking business PCB engages in internal derivative trades with Treasury to manage this interest rate risk to within its defined risk appetite, however, the businesses remain susceptible to market risk from four key sources:

- **Prepayment risk:** balance run-off may be faster or slower than expected due to customer behaviour in response to general economic conditions or interest rates. This can lead to a mismatch between the actual balance of products and the hedges executed with Treasury based on initial expectations;
- **Recruitment risk:** the volume of new business may be lower or higher than expected requiring the business to unwind or execute hedging transactions with Treasury at different rates than expected;
- **Residual risk and margin compression:** the business may retain a small element of interest rate risk to facilitate the day to day management of customer business. Additionally, in the current low rate environment, deposits on which the Group sets the interest rate are exposed to margin compression. This is because for any further fall in base rate the Group must absorb an increasing amount of the rate move in its margin; and
- **Lag risk:** the risk of being unable to re-price products immediately after a change in interest rates due to mandatory notification periods. This is highly prevalent in managed rates savings product (e.g. Every Day Saver) where customers must be informed in writing of any planned reduction in their savings rates.

Pension risk

The Group maintains a number of defined benefit pension schemes for past and current employees. The ability of the pension fund to meet the projected pension payments is maintained principally through investments.

Pension risk arises because the estimated market value of the pension fund assets might decline; or their investment returns might reduce; or the estimated value of the pension liabilities might increase. The Group monitors the market risks arising from its defined benefit pension schemes, and works with the trustees to address shortfalls. In these circumstances, the Group could be required or might choose to make extra contributions to the pension fund. The Group's main defined benefit scheme was closed to new entrants in 2012.

Insurance risk

Insurance risk is solely managed within Africa Banking where four categories of insurance risk are recognised, namely short-term insurance underwriting risk, life insurance underwriting risk, life insurance mismatch risk, and life and insurance investment risk.

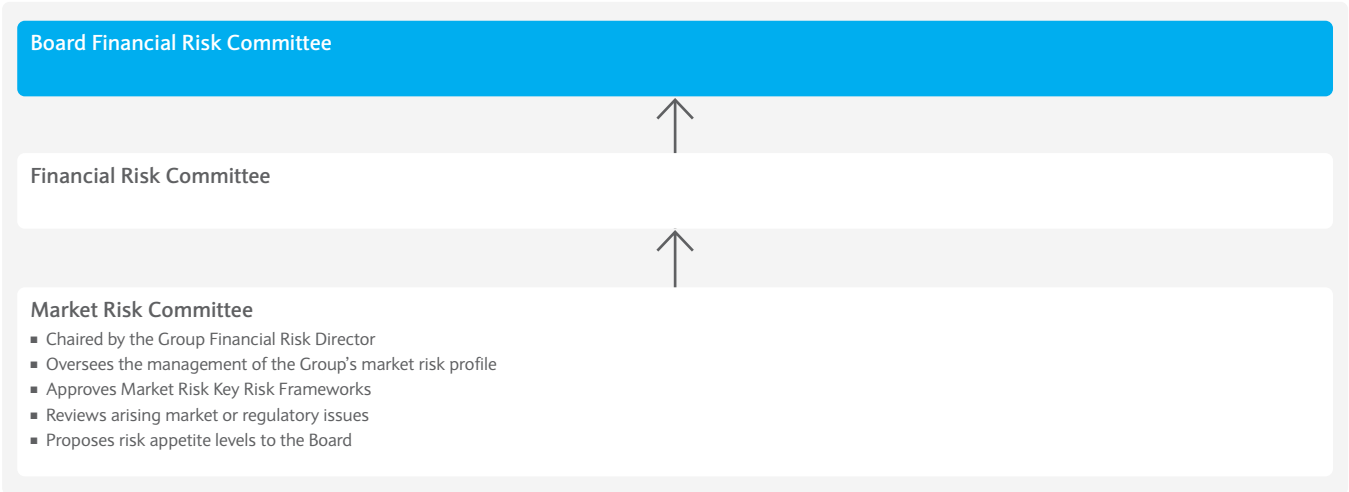
Insurance risk arises when:

- Aggregate insurance premiums received from policyholders under a portfolio of insurance contracts are inadequate to cover the claims arising from those policies and the expenses associated with the management of the portfolio of policies and claims;
- Premiums are not invested to adequately match the duration, timing and size of expected claims; or
- Unexpected fluctuations in claims arise or when excessive exposure (e.g. in individual or aggregate exposures) relative to capacity is retained in the entity.

Insurance entities also incur market risk (on the investment of accumulated premiums and shareholder capital), credit risk (counterparty exposure on investments and reinsurance transactions), liquidity risk and operational risk from their investments and financial operations.

Organisation and structure

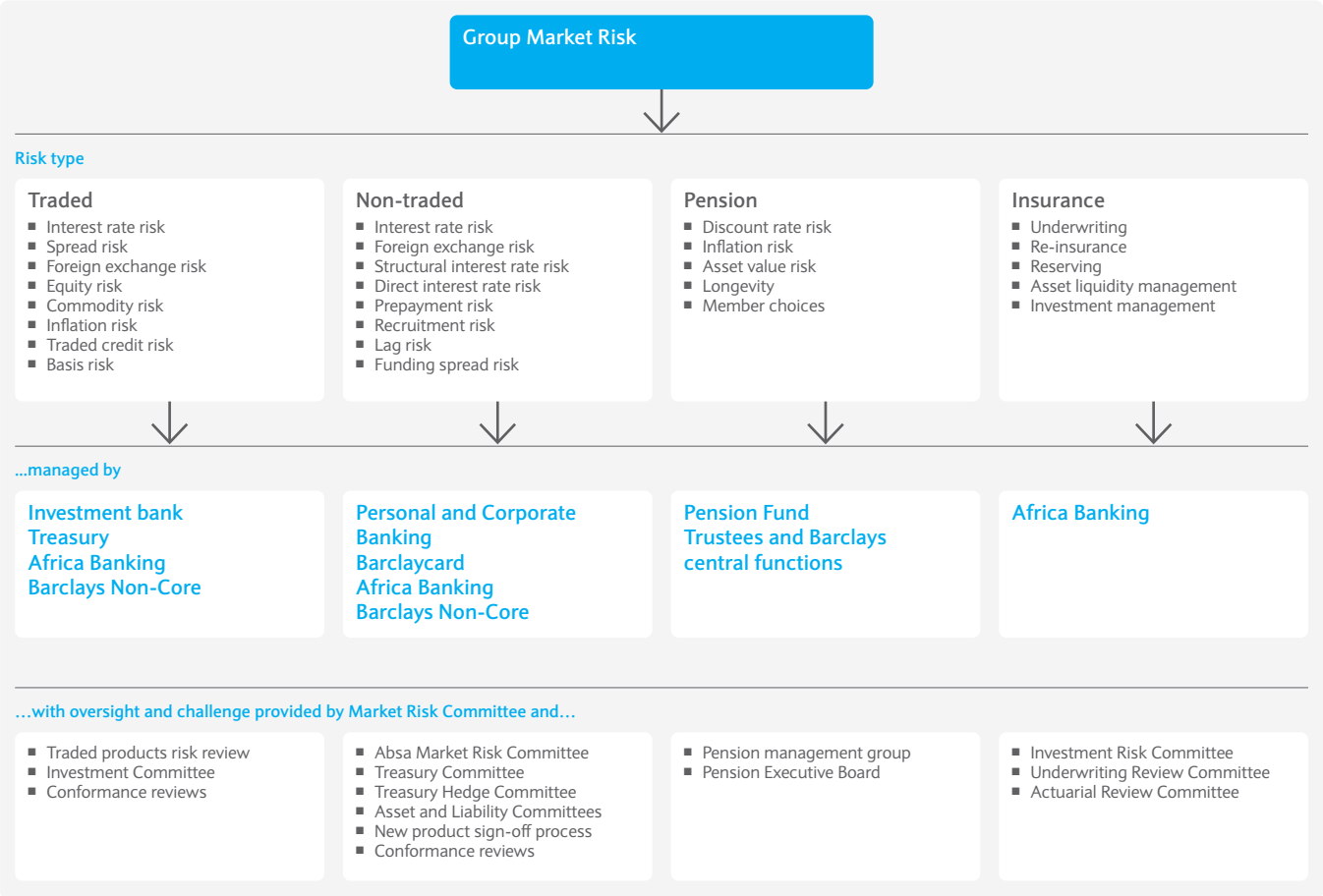
Traded market risk in the businesses resides primarily in Investment Bank, Group Treasury, Africa Banking and Non-Core. These businesses have the mandate to incur traded market risk. Non-traded market risk is mostly incurred in PCB and Barclaycard.



Management of market risk

Market risk oversight and challenge is provided by business committees, Group committees, including the Market Risk Committee and Group Market Risk. The chart below gives an overview of the business control structure.

Overview of the business market risk control structure



Roles and responsibilities

The objectives of market risk management are to:

- Understand and control market risk by robust measurement, limit setting, reporting and oversight;
- Facilitate business growth within a controlled and transparent risk management framework;
- Ensure that traded market risk in the businesses resides primarily in certain areas, and that it is controlled according to the allocated appetite;
- Control non-traded market risk in line with approved appetite;
- Control insurance risk in line with approved appetite; and
- Support the BNC strategy of asset reductions by ensuring that it remains within agreed risk appetite.

To ensure the above objectives are met, a well established governance structure is in place to manage these risks consistent with the ERMF (evaluate-respond-monitor). See page 99 on risk management strategy, governance and risk culture.

BFRC reviews and approves market risk appetite for the Group. The Group Financial Risk Director (GFRD) is responsible for the Market Risk Control Framework and, under delegated authority from the CRO, sets a limit framework within the context of the approved market risk appetite.

Across the Group, market risk oversight and challenge is provided by business committees, Group committees, including the Group Market Risk Committee and Group Market Risk. The chart above gives an overview of the business control structure.

The Group Market Risk Committee approves and makes recommendations concerning the Group-wide market risk profile. This includes overseeing the operation of the Market Key Risk Frameworks and associated standards and policies; reviewing arising market or regulatory issues, limits and utilisation; and proposing risk appetite levels to the Board. The Committee is chaired by the GFRD and attendees include the business heads of market risk, business aligned risk managers, and senior managers from Group Market Risk and Internal Audit.

The head of each business is accountable for all market risks associated with its activities, while the head of the market risk team covering each business is responsible for implementing the Key Risk Control frameworks for market risk.

Risk management in the setting of strategy

Appetite for market risk is recommended by the risk function, to be agreed by BFRC. Mandate and scales are set to control levels of market risk and ensure the Group remains within the BFRC approved risk appetite. The Group runs an annual Group-wide stress testing exercise which aims to simulate the dynamics of exposures across the Group and cover all risk factors. The exercise is also designed to measure the impact to the Group's fundamental business plan, and is used to manage the wider Group's strategy.

See pages 109 to 110 for more detail on the role of risk in the setting of strategy.

Market risk culture
Market risk managers are independent from the businesses they cover, and their line management reports into the CRO. This embeds a risk culture with strong adherence to limits that support Group-wide risk appetite. See page 103 for more detail on risk culture.

Management of traded market risk

The governance structure helps ensure all market risks that the Group is exposed to are well managed and understood.

Traded market risk is generated primarily as a result of market making activities, syndications and providing risk management solutions to clients. Treasury supports the businesses in managing their interest rate risk. Positions will contribute both to market risk limits and regulatory capital if relevant.

Traded market risk measurement – management view

Market risk management measures

A range of complementary approaches to measure traded market risk are used which aim to capture the level of losses that the bank is exposed to due to unfavourable changes in asset prices. The primary tools to control the firm's exposures are:

Measure	Description
Management Value at Risk (VaR)	An estimate of the potential loss arising from unfavourable market movements, if the current positions were to be held unchanged for one business day.
Primary stress tests	An estimate of potential losses that might arise from severe market moves or scenarios impacting key liquid risk factors.
Secondary stress tests	Modelled losses from unfavourable market movements to illiquid market risk exposures.
Business scenario stresses	Multi asset scenario analysis of extreme, but plausible events that may impact the market risk exposures of the Group.

The use of Management VaR for traded market risk is broader than the application for use of VaR for regulatory capital, and captures standardised, advanced and certain banking books where traded market risks are deemed to exist. The wider scope of Management VaR is what the Group deems as material market risk exposures which may have a detrimental impact on the performance of the Group. The scope used in Regulatory VaR (see page 141) is narrower as it applies only to trading book positions as approved by the PRA.

Stress testing and scenario analysis are also an important part of the risk management framework, to capture potential risk that may arise in severe but plausible events.

Management VaR

- Estimates the potential loss arising from unfavourable market movements, over one day for a given confidence level;
- Differs from the Regulatory VaR used for capital purposes in scope, confidence level and horizon; and
- Back testing is performed to ensure the model is fit for purpose.

VaR is an estimate of the potential loss arising from unfavourable market movements if the current positions were to be held unchanged for one business day. For internal market risk management purposes, a historical simulation methodology with a two-year equally weighted historical period, at the 95% confidence level is used for all trading books and some banking books. Risk factors driving VaR are grouped into key risk types as summarised below:

Risk factor	Description
Interest rate	Changes in the level or shape of interest rate expectations can impact prices of interest rate sensitive assets, such as bonds and derivatives instruments like interest rate swaps.
Spread	Difference between bond yields and swaps rates that arises when a business has positions in both bonds and interest rate/inflation derivatives instruments. Both assets may trade at different levels but are fundamentally exposed to similar risk.
Foreign exchange	The impact of changes in foreign exchange rates and volatilities.
Equity	Risk due to changes in equity prices, volatilities and dividend yields, for example as part of market making activities, syndication or underwriting of initial public offerings.
Commodity	Arises primarily from providing hedging solutions to clients and access to financial investors to a range of commodity products on both a derivative and physical basis and involves movements in the absolute level and shape of the spot and forward curves.
Inflation	Arises from the impact of changes in inflation rates and volatilities on cash instruments and derivatives. This arises as part of market making activities, whereby the Group may be exposed to changes in inflation rates, for example, market making syndications for inflation linked securities.
Traded credit	Arises from the uncertainty of credit quality impacting prices of assets, for example positions such as corporate bonds, securitised products and credit based derivative instruments, including credit default swaps.
Basis	The impact of changes in interest rate tenor basis (e.g. the basis between swaps vs 3M LIBOR and swaps vs 6M LIBOR) and cross-currency basis and is primarily generated as a result of market making activities.

In some instances, historical data is not available for particular market risk factors for the entire look-back period, for example, complete historical data would not be available for an equity following an initial public offering. In these cases, market risk managers will proxy the unavailable market risk factor data with available data for a related market risk factor.

The output of the Management VaR model can be readily tested through back testing. This checks instances where actual losses exceed the predicted potential loss estimated by the VaR model. If the number of instances is higher than expected, where actual losses exceed the predicted potential loss estimated by the VaR model, this may indicate limitations with the VaR calculation, for example, a risk factor that would not be adequately captured by the model.

The Management VaR model in some instances may not appropriately measure some market risk exposures, especially for market moves that are not directly observable via prices. Market risk managers are required to identify risks which are not adequately captured in VaR ('risks not in VaR' or 'RNIVs', discussed below).

When reviewing VaR estimates, the following considerations are taken into account:

- The historical simulation uses the most recent two years of past data to generate possible future market moves, but the past may not be a good indicator of the future;
- The one-day time horizon may not fully capture the market risk of positions that cannot be closed out or hedged within one day;
- VaR is based on positions as at close of business and consequently, it is not an appropriate measure for intra-day risk arising from a position bought and sold on the same day; and
- VaR does not indicate the potential loss beyond the VaR confidence level.

Limits are applied at the total level as well as by risk factor type, which are then cascaded down to particular trading desks and businesses by the market risk management function.

See page 74 for a review of Management VaR in 2014.

Primary stress tests

- Key tool used by management to measure liquid market risks from extreme market movements or scenarios in each major trading asset class

Stress testing provides an estimate of potential significant future losses that might arise from extreme market moves or scenarios. Primary stress tests apply stress moves to key liquid risk factors for each of the major trading asset classes, namely:

- **Interest rates:** shock to the level and structure of interest rates and inflation across currencies;
- **Credit:** impact on traded corporate credit exposures, including across rating grades, geography, sectors and products;
- **Foreign exchange:** impact of unfavourable moves in currency prices and volatility;
- **Equity:** shocks to share prices including exposures to specific markets and sectors;
- **Commodities:** adverse commodity price changes across both physical and derivative markets; and
- **Securitised products:** stresses to securitised structures and associated hedges.

Primary stresses apply moves to liquid assets incorporating up to 10 days holding period. Shock scenarios are determined by a combination of observed extreme historical moves and forward looking elements as appropriate.

Primary stresses are calculated for each asset class on a standalone basis. Risk managers calculate several stress scenarios and communicate the results to senior managers to highlight concentrations and the level of exposures. Primary stress loss limits are applied across the trading businesses and is a key market risk control.

Secondary stress tests

- Key tool used by management to measure illiquid market risks from extreme market movements or scenarios in each major trading asset class

Secondary stress tests are used in measuring potential losses arising from market risks that are not captured in the primary stress tests. These may relate to financial instruments or risk exposures which are not readily or easily tradable or markets that are naturally sensitive to a rapid deterioration in market conditions.

For each asset class, secondary stresses are aggregated to a single stress loss which allows the business to manage its liquid and illiquid risk factors. Limits against secondary stress losses are also applied, which allows the firm to manage and control the level of illiquid risk factors.

Stresses are specific to the exposure held and are calibrated on both observed extreme moves and some forward-looking elements as appropriate.

Business scenario stresses

- Key tool used by management to measure aggregated losses across the entire trading book as a result of extreme forward-looking scenarios encompassing simultaneous shocks to multiple asset classes

Business scenario stresses apply simultaneous shocks to all risk factors assessed by applying respective changes in foreign exchange rates, interest rates, credit spreads, commodities and equities to the entire portfolio, for example, the impact of a rapid and extreme slowdown in the global economy. The measure shows results on a multi-asset basis across all trading exposures. Business scenarios are used for risk appetite monitoring purposes and are useful in identifying concentrations of exposures and highlighting areas that may provide some diversification.

The estimated impact on market risk exposures is calculated and reported by the market risk management function on a frequent and regular basis. The stress scenario and the calibration on the shocks are also reviewed by market risk managers periodically for their relevance considering any market environment.

Scenarios such as a global recession, deterioration in the availability of liquidity, contagion effects of a slowdown in one of the major economies, slowdown in a major economic region and a historical event scenario are examples of business scenarios. If necessary, market event-specific scenarios are also calculated, such as, an unfavourable outcome of a US debt ceiling negotiation and the impact of a disorderly exit of quantitative easing programmes.

See page 77 for a review of business scenario stresses in 2014.

Traded market risk measurement – regulatory view

Regulatory view of traded positions

For regulatory purposes, the trading book is defined as one that consists of all positions in CRD financial instruments and commodities held either with trading intent or in order to hedge other elements of trading and which are either free of any restrictive covenants on their tradability or able to be hedged. A CRD financial instrument is defined as a contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party.

All of the below regulatory measures, including the Standardised approach, generate market risk capital requirements, in line with the regulatory requirements set out in the Capital Requirements Directive ('CRD IV') and Regulation. Positions which cannot be included in the trading book are included within the banking book and generate risk capital requirements in line with this treatment.

Inclusion of exposures in the regulatory trading book

The Group maintains a Trading Book Policy which defines the minimum requirements a business must meet to run trading positions, and the process by which positions are allocated to trading or banking books. Trading intent is a key element in deciding whether a position should be treated as a trading or banking book exposure.

All trading books must be managed by the businesses that have Group permission to undertake activities that give rise to traded market risk. Prior to the Group Strategy update, announced in May 2014, this was the Investment Bank and Absa Corporate. Since the announcement, the Investment Bank, Treasury, Africa Banking and Barclays Non-Core are permitted to take traded market risk. These businesses are required to document their implementation of trading book standards which define how the Group Trading Book Policy will be implemented. In particular, businesses are expected to evidence trading intent, for example, by setting and enforcing risk and position limits and defining the consequences of breaching these limits.

Positions in the trading book are subject to market risk capital, computed using models where regulatory approval has been granted, otherwise the market risk capital requirement is calculated using standard rules as defined in the Capital Requirement Regulation (CRR), part of the CRD IV package. If any of the criteria specified in the policy are not met for a position, then that position must be allocated to the banking book.

Most of the Group's market risk regulatory models are assigned the highest model materiality rating. Consequently, the Regulatory VaR model is subject to annual re-approval at the Executive Models Committee (EMC), which is chaired by the CRO and the CFO. EMC considers evidence of model suitability provided by the model owner, as well as an independent validation conducted by the Independent Validation Unit. The following table summarises the models used for market risk regulatory purposes and the applicable regulatory thresholds.

Valuation standards

CRR article 105 defines regulatory principles which need to be applied to fair value assets and liabilities in order to determine a prudent valuation.

The Prudent Valuation Adjustment (PVA) is applied to accounting fair values where there are a range of plausible alternative valuations. It is calculated in accordance with Article 105 of the Capital Requirements Regulation (CRR), and includes (where relevant) adjustments for the following factors: unearned credit spreads, close-out costs, operational risk, market price uncertainty, early termination, investing and funding costs, future administrative costs and model risk. The PVA includes adjustment for all fair valued financial instruments and commodities, irrespective of whether they are in the trading or banking book.

Page 293 of the 2014 Annual Report sets out the valuation control framework for accounting valuations and the related responsibilities of the Finance-product control valuations function and the Valuation Committee. This function and committee are also responsible for the oversight of the PVA and ensuring compliance with article 105 of the CRR.

Regulatory measures for traded market risk

There are a number of regulatory measures which the Group has permission to use in calculating regulatory capital (internal models approval). These are listed below:

Measure	Definition
Regulatory Value at Risk (VaR)	An estimate of the potential loss arising from unfavourable market movements calibrated to 99% confidence interval ten-day holding period.
Stressed Value at Risk (SVaR)	An estimate of the potential loss arising from a twelve-month period of significant financial stress calibrated to 99% confidence interval 10 day holding period.
Incremental Risk Charge (IRC)	An estimate of the incremental risk arising from rating migrations and defaults, beyond what is already captured in specific market risk VaR for the non-correlation trading portfolio. Uses a 99.9% confidence level and a one-year horizon.
All Price Risk (APR)	An estimate of all the material market risk, including rating migration and default for the correlation trading portfolio.

Regulatory VaR

- Estimates the potential loss arising from unfavourable market movements; and
- Regulatory VaR differs from the management approach.

VaR Variable	Regulatory	Management
Confidence interval	99%	95%
Scope	As approved by the regulator (PRA)	Management view of market risk exposures. Includes trading books and banking books exposed to price risk
Look-back period	2 years	2 years
Liquidity Horizon (holding period)	10 days	1 day

Regulatory VaR allows oversight of the total potential losses, at a given confidence level, of those trading books which received approval from the regulator to be covered via an internal model. Regulatory VaR levels contribute to the calculation of the market risk RWAs.

Management VaR allows the bank to supervise the total risk within Investment bank, including the trading book and some banking books. Management VaR is also utilised for internal capital model (economic capital).

Regulatory VaR is fundamentally the same as the Management VaR (see page 139), with the key differences listed above.

The model is complemented with RNIVs, as described on page 144 (including significant RNIVs over the year).

Stressed Value at Risk (SVaR)

- Estimates the potential loss arising from unfavourable market movements in a stressed environment; and
- Identical to Regulatory VaR, but calibrated over a one-year stressed period.

Regulatory capital is allocated to individual businesses. For regulatory capital calculation purposes the Group computes a market risk capital requirement based on a ten-day, 99% VaR metric calibrated to a period of significant financial stress. This Stressed VaR ('SVaR') capital requirement is added to the market risk capital requirement arising from regulatory VaR, the Incremental Risk Charge and the All Price Risk on an undiversified basis.

The SVaR model is required to be identical to the VaR model used by the Group, with the exception that the SVaR model must be calibrated to a one-year period of significant financial stress ('the SVaR period'). The Group selects the SVaR period to be a one-year period that maximises the sum of general market risk Regulatory VaR and specific market risk Regulatory VaR for positions in scope of regulatory approval. The SVaR period is reviewed on a quarterly basis or when required by material changes in market conditions or the trading portfolio.

SVaR cannot be meaningfully backtested as it is not sensitive to current market conditions. Many market risk factors with complete historical data over a two-year period may not have complete data covering the SVaR period and consequently, more proxies may be required for SVaR than for VaR. The SVaR metric itself has the same strengths and weaknesses as the Group's VaR model.

Incremental Risk Charge (IRC)

- Captures risk arising from rating migrations and defaults for traded debt instruments incremental to that already captured by Regulatory VaR and SVaR.

IRC captures the risk arising from ratings migrations or defaults in the traded credit portfolio. IRC measures this risk at a 99.9% confidence level with a one-year holding period and applies to all positions in scope for specific risk including sovereign exposure.

The Group's IRC model simulates default and ratings transition events for individual names. The behaviour of names is correlated with one another to simulate a systemic factor to model the possibility of multiple downgrades or defaults. The correlations between non-sovereign names are based on the Basel-defined correlations stipulated in the IRB approach to measuring credit risk capital, with a fixed correlation between sovereign names.

The Group's IRC model simulates the impact of a ratings transition by estimating the improvement or deterioration in credit spreads resulting from the transition and assumes that the historically observed average change in credit spreads (measured in relative terms) resulting from ratings transitions provides an accurate estimate of likely widening or tightening of credit spreads in future transitions. For each position, the model computes the impact of spread moves up or down at pre-specified relative movements in spread and the actual impact is obtained by interpolating or extrapolating the actual spread move from these pre-computed values.

The Group's IRC model assumes that ratings transitions, defaults and any spread increases occur on an instantaneous basis.

All Price Risk (APR)

- Captures all market risks affecting the correlation trading portfolio.

APR covers the correlation trading portfolio and is intended to adequately capture all risk factors relevant to corporate Nth-to-default (on a basket of referenced names) and tranched credit derivatives. The capital requirement is based on a 99.9% confidence interval over a one-year holding period. The model generates a scenario based on a Monte Carlo simulation and revalues the portfolio under the simulated market scenario. The model captures the following risk factors in the correlation trading portfolio:

- Default and ratings migration over a one-year time horizon;
- Credit spread volatility;
- Recovery risk: uncertainty of the recoverable value under default;
- Correlation risk;
- Basis risk: basis between credit indices and its underlying constituents; and
- Hedge slippage: portfolio rebalancing assumption.

The Group's APR model is based on the IRC model but also captures market risks not related to transition or default events, such as movements in credit spreads or correlations. These risk factors are included as part of the Monte Carlo simulation using distributions calibrated to historically observed moves.

Table 73: Market risk models selected features

Component modelled	Number of significant models and size of associated portfolio (RWAs)	Model description and methodology	Applicable regulatory thresholds
Regulatory VaR	1 model; £4.1bn	Equally-weighted historical simulation of potential daily P&L arising from market moves.	Regulatory VaR is computed with ten-day holding period and 99% confidence level.
SVaR	1 model; £7.9bn	Same methodology as used for VaR model, but using a different time series.	Regulatory SVaR is computed with ten-day holding period and 99% confidence level.
IRC	1 model; £1.1bn	Monte Carlo simulation of P&L arising from ratings migrations and defaults.	IRC is computed with one-year holding period and 99.9% confidence level.
APR	1 model; £0.3bn	Same approach as IRC, but it incorporates market-driven movements in spreads and correlations for application to correlation trading portfolios.	APR is computed with one-year holding period and 99.9% confidence level. As required in CRD IV, the APR charge is subject to a floor set with reference to standard rules charge.

See page 74 for a review of regulatory measures in 2014.

Regulatory back testing

Back testing is the method by which the Group checks and affirms that its procedures for estimating VaR are reasonable and serve its purpose of estimating the potential loss arising from unfavourable market movements. The back testing process is a regulatory requirement and seeks to estimate the performance of the regulatory VaR model if it had been employed in prior periods. Performance is measured by the number of exceptions to the model i.e. net trading P&L loss in one trading day is greater than the estimated VaR for the same trading day. The Group's procedures could be underestimating VaR if exceptions occur regularly (a 99% confidence interval indicates that one exception will occur in 100 days).

Back testing is performed at a legal entity level, sub-portfolio levels and business-aligned portfolios (shown in the table below and in the charts on the next page) on the Group's regulatory VaR model. Regulatory back testing compares Regulatory VaR at 99% confidence level (one-day holding period equivalent) to actual and hypothetical changes in portfolio value as defined in CRR Article 366. The consolidated Barclays Bank PLC and Barclays Capital Securities Ltd is the highest level of consolidation for the VaR models that are used in the calculation of regulatory capital.

A back testing exception is generated when a loss is greater than the daily VaR for any given day.

As defined by the PRA, a green model is consistent with a good working VaR model and is achieved for models that have four or fewer back testing exceptions in a 12-month period. Back testing counts the number of days when a loss exceeds the corresponding VaR estimate, measured at the 99% regulatory confidence level. For the Investment Bank's DVaR model, green model status was maintained for 2014.

Back testing is also performed on management VaR to ensure it remains reasonable and fit for purpose.

Management of market risk

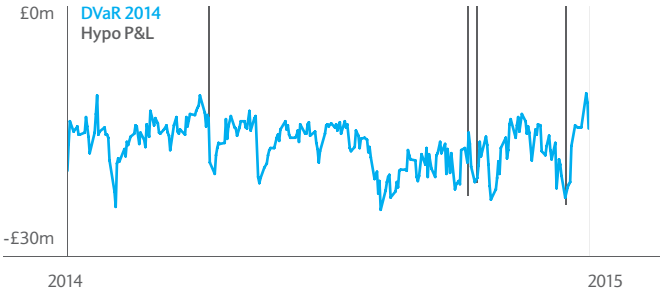
The table below shows the VaR back testing exceptions on portfolios aligned to the Group's business in 2014. A back testing exception is generated when a loss is greater than the VaR for a given day.

Portfolios	Total exceptions	Status
Equities	4	Green
Commodities (Core)	3	Green
Foreign exchange	0	Green
Fixed income rates	2	Green
Client capital management	0	Green
Credit sub-portfolios	0	Green
Counterparty risk trading single name trading	3	Green
Treasury	1	Green

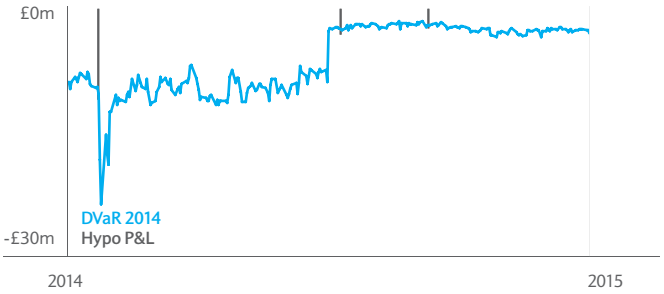
The charts below show VaR for the Group's regulatory portfolios where at least one exception has occurred during 2014. The dark blue lines indicate losses on the small number of days on which they exceeded the VaR amount.

The majority of the back testing exceptions in the year were driven by markets moving in a fashion unanticipated by the model, primarily due to risk factors moves that are higher than the VaR predicted based on the 99% confidence level. Additional exceptions are caused by non-VaR type risks which may be related to events, such as M&A, or due to pricing remarks in line with valuation policies. Exceptions are reported to internal management and regulators on a regular basis and exceptions are investigated to ensure the model performs as expected. Overall back testing remains in the green zone, suggesting that the VaR remains fit for purpose.

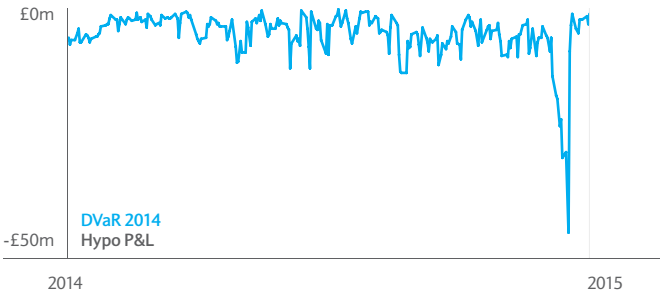
Equities



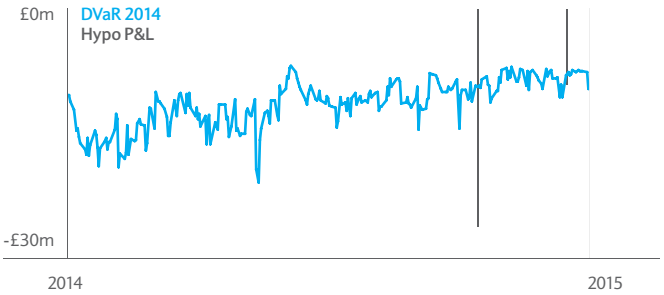
Commodities (Core)



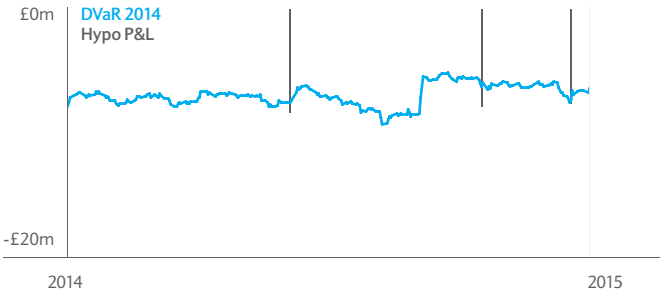
Foreign exchange



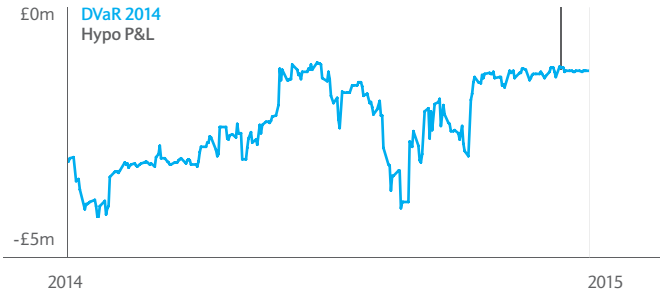
Fixed income rates



Counterparty risk trading single name trading



Treasury



The exceptions above, including those that occurred in September and December, were not driven by common market or idiosyncratic risk factors.

Management of risks not fully captured in models, including Risks not in VaR (RNIVs)

The Group's risk identification process captures risks that either have been observed to, or have the capacity to, produce material losses in normal and stressed market conditions. To ensure risk coverage, the range of key risks is identified following either market convention, regulatory guidance, or the specific historical experience of the Group and is considered as part of the new product processes.

In some instances, the Management and Regulatory VaR model may not appropriately measure some market risks, especially where market moves are not directly observable via prices, the Group has policies to ensure that add-ons are applied where risks are not captured by the model. RNIVs refer to those key risks that are not captured, or not adequately captured, in VaR and SVaR. RNIVs can include:

- Risks not fully captured elsewhere and/or illiquid risk factors such as cross-risks;
- Basis risks;
- Higher-order risks;
- Calibration parameters, for instance to model parameter uncertainty; and
- Potential losses in excess of fair valuation adjustments taken in line with the Valuation Control Framework. Please see Note 18 in the 2014 Annual Report 'Fair value of assets and liabilities' for more details on fair value adjustments.

The treatment of RNIVs follows whether the risks are considered VaR type or non-VaR type, which depends on, and can change with, the evolving state of financial markets:

- **VaR-type RNIVs:** Typically represent risks that are not well captured in VaR, mainly because of infrastructure limitations or methodology limitations. In this instance two metrics are calculated, a VaR RNIV and a SVaR RNIV, using the same confidence level, capital horizon and observation period as VaR and SVaR respectively and are capitalised using the same multipliers as VaR and SVaR; and
- **Non VaR-type RNIVs:** Typically represent risks which would not be well captured by any VaR model either because it represents an event not historically observed in the VaR time series (e.g., currency peg break) or a market risk factor which is not seen to move frequently (e.g. correlation). These are typically estimated using stress scenarios. The stress methodology is calibrated equivalently to at least 99% confidence level and a capital horizon of at least 10 days over an appropriate observation period, depending on the liquidity of the risk. For the purpose of regulatory capital, the capital charge is equal to the loss arising from the stress test except when these risks are already adequately captured elsewhere e.g. via the IRC or APR models, which are intended to capture certain risks not adequately covered by VaR.

For regulatory capital these RNIVs are aggregated without any offsetting or diversification benefit.

Traded market risk control

The metrics that are used to measure market risk are controlled through the implementation of an appropriate limit framework. Limits are set at the total Group level, asset class level, for example, interest rate risk, and at business level, for example, securitised products. Stress limits and many book limits, such as foreign exchange and interest rate sensitivity limits, are also used to control risk appetite.

Firm-wide limits are reported to the BFRC and are termed A-level limits for total management VaR, asset class VaR, primary stress and secondary stresses and business scenarios. These are then cascaded down by risk managers in order to meet the firm-wide risk appetite.

Each A-level limit is set after consideration is given to revenue generation opportunities and overall risk appetite approved by the Board. Compliance with limits is monitored by the independent risk functions in the trading businesses with oversight provided by Group Market Risk.

Throughout 2014, Group Market Risk continued its ongoing programme of conformance reviews on the trading businesses' market risk management practices. These reviews are intended to verify the business's conformance with the Market Risk Control Framework and best practices.

Traded market risk reporting

Trading businesses market risk managers produce a number of detailed and summary market risk reports daily, weekly, fortnightly and monthly for business and risk managers. Where relevant on a Group-wide basis, these are sent to Group Market Risk for review and a risk summary is presented at the Group Market Risk Committee and the trading businesses' various market risk committees. The overall market risk profile is also presented to BFRC on a regular basis.

Management of non-traded market risk

Non-traded risk measurement
Barclays uses a range of complementary technical approaches to measure non-traded market risk.

Summary of measures for non-traded market risk

Measure	Definition
Annual earnings at risk	Impact on earnings of a parallel (upward or downward) movement in interest rates.
Economic value of equity (EVE)	Change in the present value of the banking book of a parallel (upward or downward) interest rate shock.
Economic capital	Economic Capital (EC) is held to protect against unexpected loss (in excess of expected loss) and calculated over a one-year time horizon.
Value at risk (VaR)	An estimate of the potential loss arising from unfavourable market movements, if the current positions were to be held unchanged for a set period of time.
Stress testing	Scenario based stress testing using a variety of economic parameters to quantify the impact to P&L and the balance sheet under various levels of stress.

The risk in each business is measured and controlled using both an income metric (Annual Earnings at Risk) and value metrics (Economic Value of Equity, Economic Capital and VaR).

Annual Earnings at Risk (AEaR)
AEaR measures the sensitivity of net interest income over the next one-year period. It is calculated as the difference between the estimated income using the expected base rate forecast and the lowest estimated income following a parallel increase or decrease in interest rates (200bps), subject to a minimum interest rate of 0%. 200bp shocks are consistent with industry best practice and supported by banking regulators.

The main model assumptions are:

- The balance sheet is kept at the current level, i.e. no growth is assumed; and
- Balances are adjusted for an assumed behavioural profile. This includes the treatment of fixed rate loans including mortgages.

AEaR is applied to the entire banking book, including the liquidity buffer and internal trades with the trading book to hedge against interest rate risk in the banking book exposures. The metric provides a measure of how interest rate risk may impact the Group's earnings, providing a simple comparison between risk and returns. The main disadvantage of the metric is its short-term focus, as it only measures the impact on a position in the first 12 months. In order to counter this, the Group has implemented additional economic value risk metrics.

See page 79 for a review of AEaR in 2014.

Economic Value of Equity (EVE)
EVE calculates the change in the present value of the banking book for a parallel upward and downward interest rate (200bps) shock. This shock is useful for drawing comparisons across portfolios, and is also a regulatory reporting requirement. Note that the EVE calculation measures sensitivity in terms of present value, while AEaR measures income sensitivity.

The EVE measure is applied to the entire banking book, that is, the same coverage as AEaR, and covers the full life of transactions and hedges ensuring the risk over the whole life of positions are considered. The main weaknesses of this model stem from its simplicity. In particular, it does not capture the impact of business growth or of management actions and is based on the balance sheet as at the reporting date.

Economic Capital (EC, for recruitment, prepayment and residual risk)
EC consistent models, based on DVaR methodologies, are used to measure unexpected losses to a 99.98% confidence interval over a one-year period. Within non-traded risk, this measure aims to capture recruitment risk, prepayment risk and residual risk for banking book products (see definitions on page 137). EC metrics typically measure variations in economic value from specific sources of risk, for example, prepayment risk EC for fixed rate mortgages predicts the cost of hedging to reduce any mismatch exposure resulting from the impact of an interest rate shock on customer prepayment levels.

EC is used in the active management of the banking book. Limits are set against EC metrics and breaches trigger mitigating actions to reduce exposure to appropriate levels. EC modelling is typically applied only to fixed rate products and the majority of variable rate and administered rate portfolios are not subject to an EC measure.

An advantage of EC is that it can calculate unexpected losses to an appropriate degree of confidence given the nature of the risks and covers sources of loss beyond the scope of other models (for instance, AEaR only covers income changes over a one-year period; EVE only considers existing business and does not include any dynamic customer behaviour assumptions). The main weaknesses come from necessary simplifying assumptions. In the case of models based on statistical confidence intervals, the choice of the statistical distribution may drive under-prediction of very extreme events (i.e. the real distribution may be fat-tailed). To mitigate this, the Group continues to improve its models using long time series of historical data to capture the extreme effects.

See page 79 for a review of EC in 2014.

Value at Risk (VaR)
VaR is an estimate of the potential loss arising from unfavourable market movements, if the current positions were to be held unchanged for a set period. For internal market risk management purposes, the Group uses a historical simulation methodology with a two-year equally weighted historical period, at the 95% confidence level for banking book portfolios covered by the measure. This calculation is a present value sensitivity while AEaR is an income sensitivity.

Daily VaR is used to measure residual interest and foreign exchange risks within certain banking book portfolios.

Quarterly scaled VaR is used to measure risk in the Liquidity Buffer Investment Portfolio. The calculation uses a five-year historical period, a 95% confidence level and is scaled from daily to quarterly by an approved constant factor.

Stress testing
Stress losses are calculated for the liquidity buffer portfolio, but not subject to controlled limits.

All non-traded market risk positions are subject to the Group's annual stress testing exercise where scenarios based on economic parameters are used to determine the potential impact of the positions on results and the balance sheet.

Non-traded market risk control
Non-traded market risk is controlled through the use of limits on many of the above risk measures. Limits are set at the total business level and then cascaded down. The total business level limits are owned by the BCROs, while the overall Group AEaR limit is agreed with Group Market Risk and approved by the FRC. Compliance with limits is monitored by the respective business market risk team with oversight provided by Group Market Risk.

Businesses manage their interest rate risk exposures by transferring this risk to Group Treasury, who will then mitigate this risk using external markets if appropriate to keep the overall exposure within the agreed risk appetite. Group policy prevents non-trading businesses to run trading books; this is only permitted for the Investment Bank, Group Treasury, Barclays Non-Core and Africa Banking.

Non-traded market risk reporting
The Group Market Risk function produces a number of detailed market risk reports on a daily, weekly, fortnightly and monthly basis, for business and risk managers. A risk summary is presented at the Group Market Risk Committee and other market risk forums.

Management of pension risk

Pension risk control
As the investment strategy of the UKRF is owned and defined by the Trustees who are independent to the Bank, pension risk is not governed by the conventional limit framework observed in traded and non-traded market risk. However, Group Market Risk have put in place a pension risk control framework to create consistency in the evaluation and monitoring of the risk in a coordinated way with other key risks across the Group.

The risk and positions are reported monthly to the Group Market Risk Committee and periodically to the Pension Management Group (PMG), Pension Executive Board (PEB) and BFRC.

Group Market Risk is responsible for the ongoing challenge of the risk profile and to that aim will ensure the following:

- Review, at least annually the main assumptions underlying the calculation of IAS 19 liabilities;
- Ensure a continuous and detailed interaction exists between Group Market Risk, the pension asset manager and other key stakeholders;
- To conduct, where necessary, any ad-hoc analyses to ensure a consistent view of the risk positions of the fund; and
- Conducting Group-wide and regulatory stress tests for pension risk.

Pension risk measurements
The following metrics are used to describe pension risk:

- Asset/liability gap under IAS19, funding and solvency rules;
- Asset VaR and liability VaR; and
- Total pension risk VaR i.e. which includes potential diversification between assets and liabilities.

The VaR used for pension risk is calibrated at a 95% confidence level, with a one-year horizon to reflect the long-term nature of the risk. While the asset portfolio is sensitive to the volatility of any asset class the pension asset manager invests in, the liabilities are mainly exposed to interest rates and corporate credit spreads which are the main components of the discount rate and inflation.

See page 81 for a review of pension risk in 2014.

Management of insurance risk

Insurance risk measurement
Risk measurement is largely based on best practice actuarial methodologies for the measurement of assets and liabilities, capital quantification and for the monitoring of exposures against predetermined limits, in compliance with regulatory standards relevant to their application. The methodology can be deterministic or stochastic (both closed-form and simulation), depending on the application. Capital adequacy calculations are calculated at a 99.5% confidence level for regulatory purposes, and a higher confidence level for economic capital purposes. Absa Life extrapolates the underwriting Capital Adequacy Requirement (CAR) by assuming that life underwriting risk follows an appropriate statistical distribution.

The estimation of insurance technical provisions requires a number of assumptions. The appropriateness of the actuarial assumptions are reviewed by the independent external actuaries. Furthermore, the internal risk function acts as second line of defence, and provides oversight, review and challenge to the actuarial functions. Assumptions are made around demographic factors (e.g. mortality, morbidity), statistical factors (e.g. claims incidence, reporting and development patterns), and economic factors (e.g. yield curves, market returns). Stress testing can also be used to isolate and examine the impact of specific, or combinations of, variables.

Insurance risk control
Insurance risk is managed within Barclays Africa Group Limited. From an economic capital perspective, four significant categories of insurance risk and their governance procedures are:

- **Short-term insurance underwriting risk:** monitored on a quarterly basis by the Underwriting Committee to ensure the risk taken is in line with underwriting guidelines and appropriately priced and reserved for. Risk governance is monitored by the Control Review Committee (CRC), the Actuarial Review Committee (ARC) and Key Risk reporting;
- **Life insurance underwriting risk:** monitored on a quarterly basis by the Underwriting Committee to ensure the risk taken is in line with underwriting guidelines and appropriately priced and reserved for. Risk governance is monitored by the CRC, the ARC and Key Risk reporting;
- **Life insurance mismatch risk:** monitored every other month by the entity's Capital and Investment Risk Committee. A quarterly review is conducted by the Wealth, Investment Management and Insurance (WIMI) Capital and Investment Risk Committee, and an annual review by the ARC; and
- **Life and short-term insurance investment risk:** monitored by the entity Capital and Investment Risk Committee on at least a quarterly basis.

Short-term insurance underwriting activities are undertaken by Absa Insurance Company and Absa idirect. Life insurance underwriting activities are undertaken by Absa Life, Barclays Life Botswana, Barclays Life Zambia and Woolworths Financial Services (through an Absa Life cell captive). Global Alliance Mozambique underwrites both life and short-term insurance business.

Short-term insurance underwriting risk, life insurance underwriting risk, life insurance mismatch risk and investment risks are core to the business of the insurance entities. The successful management of these risks ultimately impacts the success of the entities. The same risk management frameworks and governance structures that enabled the effective management of risks for the South African entities are implemented and embedded in any new entities.

Management of securitisation exposures

Securitisations give rise to credit, market and other risks. This section discusses the types of business activities we undertake and exposures that we incur in the course of activities related to securitisations.

- The objectives pursued in securitisation activities and the types of activities undertaken are discussed on page 148
- A description of the risks incurred in the course of securitisation activities, and how we manage them, is contained on page 149

This section discloses information about the Group's securitisation activities distinguishing between the various functions performed in supporting its customers and managing its risks. It includes traditional securitisations as well as synthetic transactions effected through the use of derivatives.

For the purposes of Pillar 3 disclosures on pages 84 to 94, a securitisation is defined as a transaction or scheme where the payments are dependent upon the performance of a single exposure or pool of exposures and where the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme. Such transactions are ordinarily undertaken to transfer risk for the Group or on behalf of a client.

The Group also undertakes funding transactions for the purposes of generating term liquidity. The nature of these transactions means they are not considered under the regulatory securitisation framework (as defined under Part Three, Title II, Chapter 5 of the CRR, part of the CRD IV package). For that reason, these types of transactions are excluded from the quantitative disclosures on pages 84 to 94. Other types of transactions, for instance certain government-guaranteed transactions, are also outside of the framework and not disclosed in this section.

Objectives of securitisation activities

In the course of its business, the Group has undertaken securitisations of its own originated assets as well as the securitisation of third party assets via special purpose vehicles, sponsored conduit vehicles and shelf programmes.

The Group has securitised its own originated assets in order to manage the Group's credit risk position and to generate term liquidity for the Group balance sheet. In addition, the Group has warehoused assets prior to securitising them at clients' request. The Group also participates in primary securitisations in commercial mortgage-backed securities (CMBS), agency CMBS and asset-backed securities (ABS), and distributes bonds to clients.

Further, the Group makes a secondary market for a range of European and American securitised products, including agency residential mortgage-backed securities (RMBS), non-agency RMBS, CMBS and ABS. The Group also provides derivative transactions to securitisations sponsored by itself and third parties. These transactions are included in the Group trading book and form part of its market-making activities in interest rate and foreign exchange products.

The role and involvement of the Group in securitisations in 2014

The Group adopts the following roles in the securitisation processes in which it is involved:

Originator of assets prior to securitisation
The Group originates or purchases commercial mortgage loans or asset-backed loans for the purpose of securitisation. The securities are then sold to investors through a broker-dealer subsidiary.

Providing residential mortgage warehousing facilities for third-party assets prior to securitisation or exit via whole-loan sale
The Group provides warehouse financing to third party residential mortgage whole loan originators, largely for agency eligible loans that can be securitised by the Federal National Mortgage Association ('Fannie Mae'), the Federal Home Loan Mortgage Corporation ('Freddie Mac'), or the Government National Mortgage Association ('Ginnie Mae').

Executor of securitisation trades including bond marketing and syndication
The Group transacts primarily as a principal in investment-grade ABS and CMBS with institutional investors and other broker-dealers. Products include consumer ABS (e.g. credit card, student loan and auto), non-traditional ABS (e.g. timeshares, cell towers, whole business securitisations), asset-backed collateralised debt obligations (ABS CDO), CMBS bonds, commercial real estate collateralised debt obligations (CRE CDO), and Fannie Mae delegated underwriting and servicing bonds (DUS).

The Group may also originate and purchase commercial mortgage loans for the purpose of securitisation for sale to investors. The Group also transacts directly with government-sponsored entities as placement agent to structure and underwrite or distribute new issues.

The bank may also trade all non-agency prime, alternative-A (Alt-A), and subprime mortgage-backed securities issued by financial institutions on behalf of private label mortgage originators. Products include non-agency pass-through securities, adjustable-rate mortgages (ARMs) and collateralised mortgage obligations (CMOs). The bank can also create re-securitisations of real estate mortgage investment conduits (Re-REMICs) of mortgage-backed securities.

Purchaser of third party securitisations to support client franchise
The Group may purchase third party securitisations, acting as an investor. The Group also funds on its own balance sheet securitisations similar to the ones funded via its sponsored conduits. In such transactions the Group would not be defined as an originator or sponsor for regulatory purposes.

Sponsoring conduit vehicles
The Group acts as managing agent and administrative agent of two multi-seller asset-backed commercial paper (ABCP) conduits, Sheffield Receivables Corporation (Sheffield) and Salisbury Receivables Company LLC (Salisbury), through which interests in securitisations of third-party-originated assets are funded via the issuance of asset-backed commercial paper.

From a regulatory perspective, the Group would be defined primarily as a sponsor of these two multi-seller conduits: Sheffield and Salisbury. In relation to such conduit activity, the Group provides all or a portion of the backstop liquidity to the commercial paper, programme-wide credit enhancement and, as appropriate, interest rate and foreign currency hedging facilities. The Group receives fees for the provision of these services.

The conduits are vehicles that hold securities classified as available for sale, measured at fair value with changes in fair value recognised through other comprehensive income (OCI) and non-securities classified as loans and receivables, measured at amortised cost on their stand-alone financial statements. They fund the assets through the issuance of asset-backed commercial paper. Note that conduit vehicles are consolidated for accounting but not regulatory purposes.

Funding transactions to generate term liquidity
Secured funding forms a component of the Group's diversified funding sources providing access to secured market counterparties and complementing the diversification of funding by maturity, currency and geography. The Group issues ABS and covered bonds that are secured primarily by customer loans and advances. In 2014, the Group raised secured term funding (including both private and public issuances).

The Group currently manages four primary, on-balance sheet asset-backed funding programmes to obtain term financing for mortgage and credit card lending. The UK regulated covered bond and the residential mortgage master trust securitisation programmes both utilise assets originated by the Group's UK residential mortgage business. The third programme is a credit card master trust securitisation and uses receivables from the Group's UK credit card business. The fourth programme is the first securitisation programme backed by US domiciled credit card receivables registered with the SEC in Q4 2012.

Synthetic transactions
The Group participates in a number of risk transfer schemes under the UK NewBuy umbrella. These are cash collateralised and insolvency-remote insurance structures which fall under the BIPRU 9 framework for regulatory capital reporting purposes.

Securitisation risks, monitoring and hedging policies

Capital requirements against securitisation exposures are subject to a separate framework under CRD IV (see CRR article 449) to account for the particular characteristics of this asset class. For risk management purposes, however, a securitisation transaction is aligned to the risk type to which it gives rise.

Credit risks
In a securitisation structure, the payments are dependent upon the performance of a single exposure or pool of exposures. As these underlying exposures are usually credit instruments, the performance of the securitisation is exposed to credit risk.

Securitisation exposures are subject to the Group Credit Risk policies and procedures. This includes the requirement to review in detail each transaction at a minimum on an annual basis. As collateral risk is the primary driver the analysis places a particular focus on the underlying collateral performance, key risk drivers, servicer due diligence and cash flows, and the impact of these risks on the securitisation notes. The risk is addressed through the transaction structure and by setting an appropriate modelled tolerance level. Structural features incorporate wind-down triggers set against factors including, but not limited to, defaults/charge-offs, delinquencies, excess spread, dilution, payment rates and yield, all of which help to mitigate potential credit deterioration. Qualitative aspects such as counterparty risk and ancillary issues (operational and legal risk) are also considered. Changes to the credit risk profile of securitisation exposures will also be identified through ongoing transaction performance monitoring. In addition, periodic stress tests of the portfolio are conducted as part of ongoing risk management as well as in response to Group-wide or Regulatory requests. This process is also applied to re-securitisation exposures.

The principal committee responsible for the monitoring of the credit risk arising from securitisations is Credit Portfolio Risk Committee (CPRC) and Wholesale Credit Risk Management Committee (WCRMC). Executive responsibility rests with the Head of Counterparty and Financial Institutions Credit Risk.

Market and liquidity risks
In addition to credit risk, the securitised assets (including those underlying re-securitisations) are subject to liquidity risk, interest rate risk, and, in some instances, FX risk. The nature and scale of these risks varies from transaction to transaction – for example, individual retail exposures have very limited liquidity in their own right, but are marketable as a pool or in securitised form.

In providing warehouse financing, the Group is exposed to mark to market (if counterparty defaults on related margin call).

A securitisation is a financial transaction in which assets are pooled and securities representing interest in the pool are issued. Those securities are frequently credit and time tranched. The key risks of securitisation structures are interest rate, credit, spread, prepayment and liquidity risk. Interest rate and spread risk is hedged with standard liquid interest rate instruments (i.e. Treasury swaps). The universe of hedging instruments for credit and prepayment risk is limited and relatively illiquid resulting in basis risks. Market risk for securitised products is measured, controlled and limited through a suite of VaR, non-VAR and stress metrics in accordance with the Group's Market Risk Policies and Procedures.

Hedging
Securitisation and re-securitisation exposures benefit from the relative seniority of the exposure in the capital structure. Due to lack of availability in the credit default swap market for individual asset-backed securities, there are no material CDS hedge counterparties relating to the securitisation and re-securitisation population.

Operational risks
Operational risks are incurred in all of the Group's operations. In particular, all securitised (and re-securitised) assets are subject to a degree of risk associated with documentation and the collection of cash flows.

In providing warehouse financing, we incur potential operational risks related to representations and warranties should it be later discovered that the underlying loans were not underwritten to agency agreed criteria. Such risks are mitigated by daily collateral margining and ready agency bids. Market risk is also mitigated by employing forward trades.

The Operational Risk and Control Committee oversees the management of operational risks for the entire range of the Group's activities.

Rating methodologies, ECAIs and RWA calculations

RWAs reported for securitised and re-securitised banking book and trading book assets at 31 December 2014 are calculated in line with CRR and UK PRA rules and guidance. The Group has approval to use, and therefore applies, the internal ratings based approach for the calculation of RWAs where appropriate, and the standardised approach elsewhere.

The Group employs eligible ratings issued by nominated External Credit Assessment Institutions (ECAIs) to risk weight its securitisation and re-securitisation exposure where their use is permitted. Ratings are considered eligible for use if they comply with requirements in both CRR and European Credit Rating Agency regulation. The ECAIs nominated by the Group for this purpose are Standard and Poor's, Moody's, Fitch and DBRS.

As required by CRR, the Group uses credit ratings issued by these ECAIs consistently for all exposures within the securitisation exposure class. For that reason, there is no systematic assignment of particular agencies to types of transactions within the securitisation exposure class.

For each Asset-Backed Commercial Paper (ABCP) transaction, the internal assessment approach (IAA) framework mirrors the ECAI methodology, which also includes Moody's and S&P, who rate the Sheffield and Salisbury programmes. Under the IAA framework, the securitisation exposure must be internally rated, and the bank's internal assessment process must meet certain requirements in order to map its own internal rating to an ECAI. Stress testing on a securitisation structure is performed as prescribed by an ECAI methodology for the relevant ratings level, and is at least as conservative as the published methodology. Stress factors may include, among other factors, asset yields, principal payment rates, losses, delinquency rates and interest rates.

In determining an internal rating, collateral risks are the primary driver and are addressed through the transaction structure and modelled statistical confidence. The analysis reflects the Group's view on the transaction, including dilution risk, concentration and tenor limits, as well as qualitative aspects such as counterparty risk and important ancillary issues (operational and legal risks). The adequacy and integrity of the servicer's systems and processes for underwriting, collections policies and procedures are also reviewed. The Group conducts a full due diligence review of the servicer for each transaction. Each transaction is reviewed on, at least, an annual basis with a focus on the performance of underlying assets. The results of any due diligence review and the financial strength of the seller/servicer, are also factored into the analysis. Ratings of the transaction are reaffirmed with the most up to date ECAI methodologies. Any transaction which deviates from the current methodology is amended accordingly.

Summary of the accounting policies for securitisation activities

Certain Group-sponsored entities have issued debt securities or have entered into funding arrangements with lenders in order to finance specific assets. An entity is consolidated by the Group when the Group has control over the entity. The Group controls an entity if it has all of the three elements of control which are i) power over the entity; ii) exposure, or rights, to variable returns from its involvement with the entity; and iii) the ability to use its power over the entity to affect the amount of the Group returns.

The consolidation treatment must be initially assessed at inception and is reassessed if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Generally, any assets that are awaiting securitisation are valued using the appropriate method for the asset class but considering the intent; typically, the securitised assets will have been included on the Group balance sheet and are measured at fair value though P&L, as they are classified as held for trading or are reflected at fair value through profit and loss, under the IAS 39 fair value option. However some non-derivative assets held prior to securitisation may qualify as loans and receivables and are measured at amortised cost. When securitised assets have been included on the Group balance sheet it is necessary to consider whether those assets may be removed from the Group balance sheet. Assets which have been transferred to third parties (i.e. an unconsolidated Group entity) will remain on the Group balance sheet, and be treated as financings, unless the following criteria apply:

- Substantially all the risks and rewards associated with the assets have been transferred, in which case, they are derecognised in full; or
- If a significant portion, but not all, of the risks and rewards have been transferred, the asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised only to the extent of the Group's continuing involvement.

Note that any support arrangements would be recognised only if they met relevant IFRS criteria. In addition, any financial guarantees to unconsolidated entities may give rise to a provision under IAS 37. Finally, under IFRS 12 any financial support or contractual arrangement that could require financial support from the Group would have to be disclosed (see Note 39 in the 2014 Annual Report). Note, however, that the Group has a Significant Risk Transfer policy that does not allow for any support to be provided to any transactions that fall under the securitisation framework.

Assets may be transferred to a third party through a legal sale or an arrangement that meets the 'passthrough' criteria where the substance of the arrangement is principally that the Group is acting solely as a cash collection agent on behalf of the eventual recipients.

Where the transfer applies to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the asset.

When the above criteria support the case that the securitisation should not be accounted for as financing, the transaction will result in sale treatment or partial sale treatment to the extent the Group has no continuing involvement. Where the Group has continuing involvement the assets will continue to be recognised to the extent of the continuing involvement. Gains are recognised to the extent that proceeds that can be measured using observable market data exceed the assets derecognised.

Any retained interests, which will consist of loans and/or securities depending on the nature of the transaction, are valued in accordance with the Group's Accounting Policies, as set out in the 2014 Annual Report. To the extent that these interests are measured at fair value, they will be included within the fair value disclosures in the financial statements in the Annual Report. As outlined in these disclosures, key valuation assumptions for retained interests of this nature will include spreads to discount rates, default and recovery rates and prepayment rates that may be observable or unobservable.

In a synthetic securitisation transaction, the underlying assets are not sold into the relevant special purpose entity (SPE). Instead, their performance is transferred into the vehicle through a synthetic instrument such as a CDS, a credit linked note or a financial guarantee. The accounting policies outlined above will apply to synthetic securitisations.

Management of operational risk

The sources of operational risks, and how those risks are managed, are detailed in this section.

- The types of risks that are classified as operational risks are described on page 152
- Governance, management and measurement techniques are covered on pages 153 and 154

Management of operational risk

Operational risk management overview

Operational risk is defined as any instance where there is a potential or actual impact to the Group resulting from inadequate or failed internal processes, people, systems, or from an external event. The impacts to the Group can be financial, including losses or an unexpected financial gain, as well as non-financial such as customer detriment, reputational or regulatory consequences.

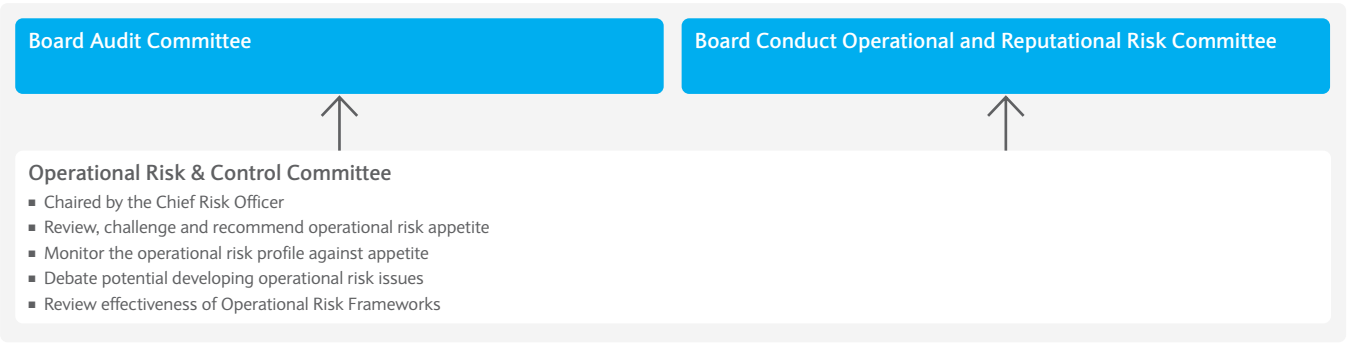
Overview

The management of operational risk has two key objectives:

- Minimise the impact of losses suffered, both in the normal course of business (small losses) and from extreme events (large losses); and
- Improve the effective management of the Group and strengthen its brand and external reputation.

The Group is committed to the management and measurement of operational risk and was granted a waiver by the FSA (now the PRA) to operate an Advanced Measurement Approach (AMA) for operational risk, which commenced in January 2008. The majority of the Group calculates regulatory capital requirements using AMA (93% of capital requirements), however, in specific areas the Basic Indicator Approach (7%) is applied. The Group works to benchmark its internal operational risk management and measurement practices with peer banks and to drive the further development of advanced techniques.

Organisation and structure



The Group is committed to operating within a strong system of internal control that enables business to be transacted and risk taken without exposing itself to unacceptable potential losses or reputational damage. The Group has an overarching framework that sets out the approach to internal governance (The Barclays Guide). This guide establishes the mechanisms and processes by which the Board directs the organisation, through setting the tone and expectations from the top, delegating its authority and monitoring compliance. A key component of the Barclays Guide is the ERMF, the purpose of which is to identify and set minimum requirements in respect of the main risks to achieving the Group's strategic objectives and to provide reasonable assurance that internal controls are effective.

The key elements of the Group's system of internal control, which is aligned to the recommendations of The Committee of Sponsoring Organizations of the Treadway Commission, Internal Control – Integrated Framework (COSO), are set out in the risk control frameworks relating to each of the Group's Key Risks and in the Group Operational Risk Framework.

Operational Risk comprises a number of specific Key Risks defined as follows:

- **CyberSecurity:** risk of loss or detriment to Barclays business and customers as a result of actions committed or facilitated through the use of networked information systems;
- **External supplier:** inadequate selection and ongoing management of external suppliers;
- **Financial reporting:** reporting mis-statement or omission within external financial or regulatory reporting;
- **Fraud:** dishonest behaviour with the intent to make a gain or cause a loss to others;
- **Information:** inadequate protection of the Group's information in accordance with its value and sensitivity;
- **Legal:** failure to identify and manage legal risks;
- **Payments:** failure in operation of payments processes;
- **People:** inadequate people capabilities, and/or performance/reward structures, and/or inappropriate behaviours;
- **Premises & security:** unavailability of premises (to meet business demand) and/or safe working environments, and inadequate protection of physical assets, employees and customers against external threats;
- **Taxation:** failure to comply with tax laws and practice which could lead to financial penalties, additional tax charges or reputational damage;
- **Technology:** failure to develop and deploy secure, stable and reliable technology solutions; and
- **Transaction operations:** failure in the management of critical transaction processes.

In order to ensure complete coverage of the potential adverse impacts on the Group arising from operational risk, the operational risk taxonomy extends beyond the operational Key Risks listed above to cover areas included within conduct risk. For more information on Conduct Risk please see pages 163 to 164.

These risks may result in financial and/or non-financial impacts including legal/regulatory breaches or reputational damage.

The Operational Risk Framework comprises a number of elements which allow the Group to manage and measure its operational risk profile and to calculate the amount of operational risk capital that the Group needs to hold to absorb potential losses. The minimum, mandatory requirements for each of these elements are set out in the group operational risk policies. This framework is implemented across the Group:

- Vertically, through the organisational structure with all businesses required to implement and operate an operational risk framework that meets, as a minimum, the requirements detailed in these operational risk policies; and
- Horizontally, with the Group key risk officers required to monitor information relevant to their Key Risk from each operational risk framework element.

Management of operational risk

The prime responsibility for the management of operational risk and the compliance with control requirements rests with the business and functional units where the risk arises. The Operational risk function acts in a second line of defence capacity and provides oversight and challenge of the business operational risk profile escalating issues as appropriate.

The Group Head of Operational Risk is responsible for establishing, owning and maintaining an appropriate Group-wide Operational Risk Framework and for overseeing the portfolio of Operational risk across the Group. The Operational Risk & Control Committee (OR&CC) is the senior executive body responsible for the oversight and challenge of Operational risk and the control environment. Depending on their nature, the outputs of the OR&CC are presented to the BCORR or the BAC.

At the business level, operational risk is monitored by executive management through specific meetings which cover governance, risk and control. Businesses are required to report their operational risks on both a regular and an event-driven basis. The reports include a profile of the material risks that may threaten the achievement of their objectives and the effectiveness of key controls, material control issues, operational risk events and a review of scenarios and capital.

Operational risk management is represented at the business meetings and provides specific risk input into the issues highlighted and the overall risk profile of the business. Operational risk issues escalated from these meetings are considered at the OR&CC and from time to time businesses are required to present a deep-dive of their operational risk and control environment. The committee then considers material control issues and their effective remediation. On control issues, the OR&CC additionally presents to the BAC.

Specific reports are prepared by businesses, Key Risk Officers and Group Operational Risk on a regular basis for OR&CC, BCORR and BAC.

Operational risk management

The Operational Risk framework is a key component of the ERMF and has been designed to meet a number of external governance requirements including the Basel Capital Accord, the Capital Requirements Directive and Turnbull guidance as an evaluation framework for the purposes of Section 404(a) of the Sarbanes-Oxley Act. It also supports the Sarbanes-Oxley requirements.

The operational risk framework includes the following elements:

Risk and control self-assessments

The Group identifies and assesses all material risks within each business and evaluates the key controls in place to mitigate those risks. Managers in the businesses use self-assessment techniques to identify risks, evaluate the effectiveness of key controls in place and assess whether the risks are effectively managed within business risk appetite. The businesses are then able to make decisions on what, if any, action is required to reduce the level of risk to the Group. These risk assessments are monitored on a regular basis to ensure that each business continually understands the risks it faces.

Risk events

An operational risk event is any circumstance where, through the lack or failure of a control, the Group has actually, or could have, made a loss. The definition includes situations in which the Group could have made a loss, but in fact made a gain, as well as incidents resulting in reputational damage or regulatory impact only.

A standard threshold is used across the Group for reporting risk events and part of the analysis includes the identification of improvements to processes or controls, to reduce the recurrence and/or magnitude of risk events. For significant events, both financial and non-financial, this analysis includes the completion of a formal lessons learnt.

The Group also uses a database of external risk events which are publicly available and is a member of the Operational RiskData eXchange (ORX), a not-for-profit association of international banks formed to share anonymous loss data information. This external loss information is used to support and inform risk identification, assessment and measurement.

Key indicators

Key indicators (KIs) are metrics which allow the Group to monitor its operational risk profile. KIs include measurable thresholds that reflect the risk appetite of the business and are monitored to alert management when risk levels exceed acceptable ranges or risk appetite levels and drive timely decision making and actions.

Operational risk appetite

The Group's approach to determining its operational risk appetite combines both quantitative measures and qualitative judgement, in order to best reflect the nature of non-financial risks.

The monitoring and tracking of operational risk measures is supplemented with qualitative review and discussion at senior management executive committees on the action being taken to improve controls and reduce risk to an acceptable level.

Operational risk appetite is aligned to the Group's Risk Appetite Framework. The BCORR considers and recommends to the Board for approval, via the BEWRC, the Group's risk appetite statement for operational risk based on performance in the current year and the projections for financial volatility for the following year.

Key Risk appetite statements are agreed utilising the same approach and are contained within the respective Key Risk Frameworks.

Reporting

The ongoing monitoring and reporting of operational risk is a key component of the Operational Risk Framework. Reports are used by the operational risk function and by business management to understand, monitor, manage and control operational risks and losses.

The operational risk profile is reviewed by senior management at the OR&CC and the Board at the BCORR.

Key risk scenarios

Key risk scenarios are a summary of the extreme potential risk exposure for each Key Risk in each business and function, including an assessment of the potential frequency of risk events, the average size of losses and three extreme scenarios. The key risk scenario assessments are a key input to the Advanced Measurement Approach calculation of regulatory and economic capital requirements (see following section on operational risk measurement). The assessment considers analysis of internal and external loss experience, key risk indicators, risk and control self-assessments and other risk information. The businesses and functions analyse potential extreme scenarios, considering the:

- Circumstances and contributing factors that could lead to an extreme event;
- Potential financial and non-financial impacts (for example reputational damage); and
- Controls that seek to limit the likelihood of such an event occurring, and the mitigating actions that would be taken if the event were to occur (for example crisis management procedures, business continuity or disaster recovery plans).

Management may then conclude whether the potential risk is acceptable (within appetite) or whether changes in risk management control or business strategy are required.

The key risk scenarios are regularly re-assessed taking into account trends in risk factors such as mis-selling, conduct and financial crime risks.

Management of operational risk

Operational risk measurement

The Group assesses its operational risk capital requirements using an Advanced Measurement Approach. The approach involves estimating the potential range of losses that could be incurred in a year from operational risk events, using statistical distributions. Regulatory capital requirements are set to cover 99.9% of the estimated losses. The Group also assesses its economic capital requirements to cover 99.98% of the estimated losses that exceed the typical losses (diversified across all risk classes).

The potential frequency and severity of losses is estimated for each Key Risk (within the operational risk category, including conduct) across the Group's businesses and functions. The potential range of individual loss severities is represented by a statistical distribution, estimated from the average loss size and three extreme scenarios (from Key Risk Assessments), as well as loss data from the Operational RiskData eXchange (ORX).

The capital calculation also takes into account the possibility of dependences between operational risk losses occurring in a year (between businesses and functions and between risks). Greater allowance is made for correlation between losses within businesses than between the different types of risk, as regulators require that the Group allows sufficient conservatism to allow for potential correlation in times of stress.

In certain joint ventures and associates, the Group uses the Basic Indicator Approach to determine the capital requirements: the Africa RBB businesses, including Barclays Bank Mozambique and National Bank of Commerce (Tanzania); Barclays Bank PLC Pakistan; the business activities acquired from Lehman Brothers; the portfolios of assets purchased from Woolworths Financial Services in South Africa, Citi Cards Portugal and Italy, Standard Life Bank, ING Direct, MBNA Corporate Cards, Upromise, RCI, Egg Cards, EdCon, Sallie Mae and Ameriprice.

Insurance

As part of its risk management approach, the Group also uses insurance to mitigate the impact of some operational risks.

Management of funding risk

This section provides an analysis of the management of liquidity and capital risk.

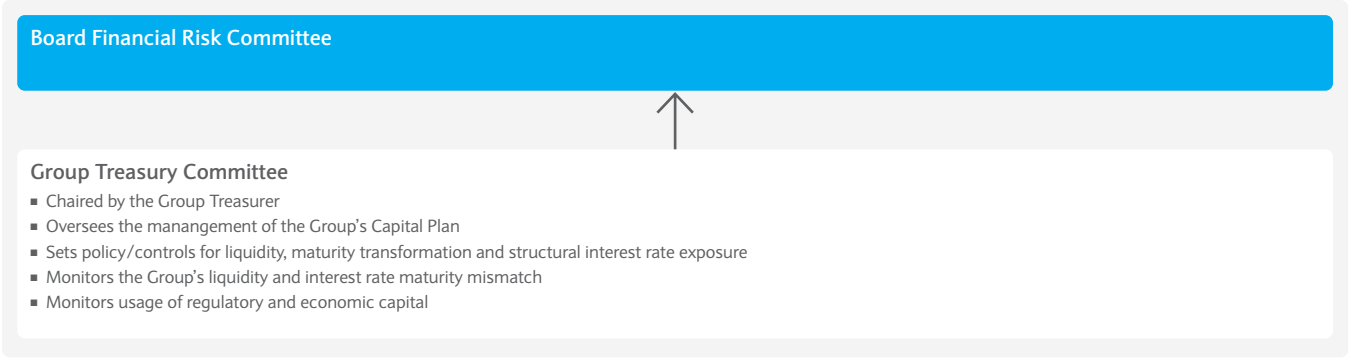
- Liquidity risk, with a focus on how it is managed to ensure that resources are adequate at all times including under stress, is discussed on pages 156 to 158
- Capital risk, including how the risk of insufficient capital and leverage ratios is managed, is discussed on pages 158 to 159

Management of funding risk

Funding Risk

The ability of the Group to achieve its business plans may be adversely impacted if it does not effectively manage its capital (including leverage) and liquidity ratios. Group Treasury manage Funding Risk on a day-to-day basis with the Group Treasury Committee acting as the principle management body.

Group Treasury manage Funding Risk on a day-to-day basis with the Group Treasury Committee acting as the principal management body. In 2014, to ensure effective oversight and segregation of duties and in line with the ERMF, the Key Risk Officer duties and conformance responsibilities were transferred from Treasury to Risk.



Capital and Liquidity Risks are separate Key Risks under Funding risk; these are covered below.

Liquidity Risk

Liquidity risk is the risk that a firm, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. This also results in a firm's inability to meet regulatory liquidity requirements. This risk is inherent in all banking operations and can be affected by a range of Group-specific and market-wide events.

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The Board has formally recognised a series of risks that are continuously present in Barclays and materially impact the achievement of Barclays objectives one of which is Funding risk. Liquidity risk is recognised as a Key risk within Funding risk. The efficient management of liquidity is essential to the Group in retaining the confidence of the financial markets and ensuring that the business is sustainable. Liquidity risk is managed through the Liquidity Risk Management Framework (the Liquidity Framework) which is designed to meet the following objectives:

- To maintain liquidity resources that are sufficient in amount and quality and a funding profile that is appropriate to meet the liquidity risk appetite as expressed by the Board; and
- To maintain market confidence in the Group's name.

This is achieved via a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring. Together, these meet internal and regulatory requirements.

Governance and organisation

Barclays Treasury operates a centralised governance control process that covers all of the Group's liquidity risk management activities. As per Enterprise Risk Management Framework the Treasury Key Risk Officer (KRO) approves the Liquidity Framework under which the treasury function operates. The Treasury KRO reports into the Head of Financial Risk (Principal Risk Officer) and has an independent reporting line to the risk function. The Liquidity Framework is subject to annual review. The Liquidity Framework describes liquidity policies and controls that the Group has implemented to manage liquidity risk within the Liquidity Risk Appetite.

The Board sets the Group's Liquidity Risk Appetite (LRA), being the level of risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. The Treasury Committee is responsible for the management and governance of the mandate defined by the Board and includes the following sub committees:

- The Funding and Liquidity Risk Committee is responsible for the review, challenge and recommendation of the Liquidity Framework to the Treasury Committee
- The Liquidity Management Committee is responsible for managing the liquidity of the Group in the event of a liquidity stress

Ongoing business management

Liquidity risk framework

Barclays has a comprehensive Liquidity Framework for managing the Group's liquidity risk. The Liquidity Framework is designed to deliver the appropriate term and structure of funding consistent with the Liquidity Risk Appetite set by the Board.

The Liquidity Framework incorporates a range of ongoing business management tools to monitor, limit and stress test the Group's balance sheet and contingent liabilities and a Contingency Funding Plan. Limit setting and transfer pricing are tools that are designed to control the level of liquidity risk taken and drive the appropriate mix of funds, which together reduce the likelihood that a liquidity stress event could lead to an inability to meet the Group's obligations as they fall due. The stress tests assess potential contractual and contingent stress outflows under a range of scenarios, which are then used to determine the size of the liquidity pool that is immediately available to meet anticipated outflows, if a stress occurred.

The Group maintains a Contingency Funding Plan which details how liquidity stress events of varying severity would be managed. Since the precise nature of any stress event cannot be known in advance, the plans are designed to be flexible to the nature and severity of the stress event and provide a menu of options that could be used as appropriate at the time. Barclays also maintains Recovery Plans which consider actions to generate additional liquidity in order to facilitate recovery in a severe stress.

Management of funding risk

Ongoing business management	Early signs/ Mild stress	Severe Stress	Recovery	Resolution
■ LRA and Planning ■ Liquidity limits ■ Early Warning Indicators Committee	■ Monitoring and review ■ Low cost actions and balance sheet optimism	■ Activate Contingency Funding Plan ■ Balance sheet reduction and business limitations	■ Asset and liability actions to generate additional liquidity	■ Ensure an orderly resolution can be carried out if necessary, without adverse systemic risk or exposing the public fund to loss

Risk Appetite and Planning

Under the Liquidity Framework, Barclays has established a Liquidity Risk Appetite (LRA) together with the appropriate limits for the management of the liquidity risk. This is the level of liquidity risk the Group chooses to take in pursuit of its business objectives and in meeting its regulatory obligations. The key expression of the liquidity risk is through internal stress test. It is measured with reference to the liquidity pool compared to anticipated stressed net contractual and contingent outflows for each of three stress scenarios.

The LRA for internal stress test is approved by the Board. The LRA is reviewed on a continuous basis and is subject to formal review at least annually as part of the Individual Liquidity Adequacy Assessment (ILAA).

Statement of Liquidity Risk Appetite: The Board has approved that the Group will maintain target survival periods. These are expressed in the form of positive cash flows over designated time horizons. The Board has approved:

- 30 days under Barclays specific stress;
- 90 days under market wide stress; and
- 30 days under a combined stress.

The stress outflows are used to determine the size of the Group Liquidity Pool, which represents those resources immediately available to meet outflows in a stress. In addition to the liquidity pool, the Liquidity Framework provides for other management actions, including generating liquidity from other liquid assets on the Group's balance sheet in order to meet additional stress outflows, or to preserve or restore the Liquidity Pool in the event of a liquidity stress.

Liquidity Limits

Barclays manages limits on a variety of on and off-balance sheet exposures, a sample of which is shown in the table below. These limits serve to control the overall extent and composition of liquidity risk taken by managing exposure to the cash outflows.

Examples of Liquidity limits			
Liquidity buffer composition	FX cash flow limits	Concentration limits	Structured Notes limits
Secured Mismatch limits	Debt Buyback limits	Off-balance sheet commitment limits	Ratings Downgrade limits

Internal Pricing and Incentives

Barclays actively manages the composition and duration of the balance sheet and of contingent liabilities through the transfer of liquidity premium directly to business units. Liquidity premiums are charged and credited to businesses according to the behavioural life of assets and liabilities and contingent risk. These transfer pricing mechanisms are designed to ensure that liquidity risk is reflected in product pricing and performance measurement, thereby ensuring that the Liquidity Framework is integrated into business level decision making to drive the appropriate mix of sources and uses of funds.

Early Warning Indicators

Barclays monitors a range of market indicators for early signs of liquidity risk either in the market or specific to Barclays, a sample of which are shown in the table below. These are designed to immediately identify the emergence of increased liquidity risk to maximise the time available to execute appropriate mitigating actions. Deterioration in Early Warning Indicators supports the decision to invoke the Group's Contingency Funding Plan, which provides a framework for how the liquidity stress would be managed.

Examples of Early Warning Indicators		
Change in composition of deposits	Deterioration in liquidity stress tests	Rising funding costs
Widening CDS spreads	Change in maturity profile	Repo haircut widening

Management of funding risk

Contingency Funding Plan and Recovery Resolution Plan

Barclays maintains a Contingency Funding Plan (CFP), which is designed to provide a framework where a liquidity stress could be effectively managed. The CFP is proportionate to the nature, scale and complexity of the business and is tested to ensure that it is operationally robust. The CFP details the circumstances in which the plan could be invoked, including as a result of adverse movements in Liquidity Early Warning Indicators. As part of the plan the Barclays Treasurer has established a Liquidity Management Committee (LMC). On invocation of the CFP by the Executive Committee (ExCo), the LMC would meet to identify the likely impact of the event on the Group and determine the response, which would be proportionate to the nature and severity of the stress.

The CFP's key objectives are to provide the Group with a range of options to ensure the viability of the firm in a stress, set consistent Early Warning Indicators and enable the Group to be adequately prepared to respond to stressed conditions. The Group continues to work closely with the PRA on developing the resolution plan.

Capital Risk:

Overview

Capital risk is the risk that the Group has insufficient capital resources to:

- Meet minimum regulatory requirements in the UK and in other jurisdictions such as the United States and South Africa where regulated activities are undertaken. The Group's authority to operate as a bank is dependent upon the maintenance of adequate capital resources;
- Support its credit rating. A weaker credit rating would increase the Group's cost of funds; and
- Support its growth and strategic options.

Organisation and structure

Capital Management is integral to the Group's approach to financial stability and sustainability management and is therefore embedded in the way businesses and legal entities operate. Capital demand and supply is actively managed on a centralised basis, at a business level, at a local entity level and on a regional basis taking into account the regulatory, economic and commercial environment in which Barclays operates.

The Group's Capital Management strategy is driven by the strategic aims of the Group and the risk appetite set by the Board. The Group's objectives are achieved through well embedded capital management practices:

Primary objectives	Core practices
Provide a viable and sustainable business offering by maintaining adequate capital to cover the Group's current and forecast business needs and associated risks	▪ Maintain a capital plan on a short term and medium term basis aligned with strategic objectives, balancing capital generation of the business with business growth and shareholder distributions
Ensure the Group and legal entities maintain adequate capital to withstand the impact of the risks that may arise under the stressed conditions analysed by the Group	▪ Meet minimum regulatory requirements at all times in the UK and in all other jurisdictions that the Group operates in, such as the United States and South Africa where regulated activities are undertaken ▪ Perform Group-wide internal and regulatory stress tests ▪ Maintain capital buffers over regulatory minimums ▪ Develop contingency plans for severe (stress management actions) and extreme stress tests (recovery actions)
Support a strong credit rating	▪ Maintain capital ratios aligned with rating agency expectations

Capital planning

Capital forecasts are managed on a top-down and bottom-up analysis through both Short Term (1 Year) and Medium Term (3 year) financial planning cycles. Barclays' capital plans are developed with the objective of maintaining capital that is adequate in quantity and quality to support the Group's risk profile, regulatory and business needs, including Transform financial targets. As a result, the Group holds a diversified capital base that provides strong loss absorbing capacity and optimised returns.

Barclays' capital plans are continually monitored against relevant internal target capital ratios to ensure they remain appropriate, and that risks to the plan, including possible future regulatory changes, are considered.

Local management ensures compliance with an entity's minimum regulatory capital requirements by reporting to local Asset and Liability Committees with oversight by the Group's Treasury Committee, as required.

Regulatory requirements

Capital planning is set in consideration of minimum regulatory requirements in all jurisdictions in which the Group operates. Barclays' regulatory capital requirements are determined by the PRA under the Basel III and CRD IV frameworks.

Under these regulatory frameworks, capital requirements are set in consideration of the level of risk that the firm is exposed to which is measured through both risk-weighted assets (RWAs) and leverage.

Capital held to support the level of risk identified is set in consideration of minimum ratio requirements and internal buffers. Capital requirements are set to support the firm's level of risk both on a going concern basis and in resolution.

Target ratios

The Group's capital plan and target ratios are set in consideration of our risk profile, business and CRD IV requirements. The Group's targets include;

A CRD IV fully loaded CET1 ratio of greater than 11% in 2016 in line with our Transform targets

A total capital ratio of at least 17% by 2019 comprising;

- CET1 of between 11.5-12% which includes a 10.6% minimum CET1 ratio requirement (including Pillar 2A but excluding counter-cyclical buffer) and an internal management buffer of up to 1.5%
- 2.0% Additional Tier 1(including Pillar 2A)
- 2.9% Tier 2(including Pillar 2A)

Leverage

In addition to the Group's capital structure, target ratios have also been set in respect of both the PRA's leverage ratio requirement of 3% and the FPC's final recommendations of its leverage review published 31 October 2014.

The review recommends a minimum leverage ratio requirement, a supplementary leverage ratio buffer applicable to globally systemically important banks and a countercyclical leverage ratio buffer. These recommendations would result in a fully phased in leverage ratio of 3.7% for Barclays (based on current G-SIFI and Countercyclical Buffer assumptions) applicable by 2018. We expect however to achieve a leverage ratio of greater than 4% by 2016 in line with our Transform targets.

Regulatory reform

Additional capital requirements will also arise from other regulatory reforms, including both UK, EU and US proposals on bank structural reform, current EBA 'Minimum Requirement for own funds and Eligible Liabilities' (MREL) proposals under EU Bank Recovery Resolution Requirement Directive (BRRD) and Financial Stability Board (FSB) Total Loss-Absorbing Capacity' (TLAC) proposals for globally systemically important banks. Given many of the proposals are still in draft form and subject to change, the impact is still being assessed.

Governance

The Group and legal entity capital plans are underpinned by the Capital Risk Framework, which includes capital management policies and practices approved by the Treasury Committee. These plans are implemented consistently in order to deliver on the Group objectives.

The Board approves the Group capital plan, stress tests and recovery plan. The Treasury Committee manages compliance with the Group's capital management objectives. The Committee reviews actual and forecast capital demand and resources on a monthly basis. The Board Risk Committee annually reviews risk appetite and then analyses the impacts of stress scenarios on the Group capital forecast in order to understand and manage the Group's projected capital adequacy.

Monitoring and managing capital

Capital is monitored and managed on an ongoing basis through;

Stress testing: Internal stress testing is undertaken to quantify and understand the impact of sensitivities on the capital plan and capital ratios, arising from 1 in 7 year and 1 in 25 year stresses. Actual recent economic, market and peer institution stresses are used to inform the assumptions of stress tests and assess the effectiveness of mitigation strategies.

The Group also undertakes stress tests prescribed by the PRA and ECB. Legal entities undertake stress tests prescribed by their local regulators. These stress tests inform decisions on the size and quality of capital buffer required and the results are incorporated into the Group capital plan to ensure adequacy of capital under normal and severe, but plausible stressed conditions.

Risk mitigation: As part of the stress testing process actions are identified that should be taken to mitigate the risks that could arise in the event of material adverse changes in the current economic and business outlook.

As an additional layer of protection, the Barclays Recovery Plan defines the actions and implementation strategies available for the Group to increase or preserve capital resources in the event that stress events are more extreme than anticipated. In addition, the strong regulatory focus on resolvability has continued in 2014, from both UK and international regulators. The Group continues to work with the authorities on recovery and resolution planning (RRP), and the detailed practicalities of the resolution process, including the provision of information that would be required in the event of a resolution, so as to enhance Barclays' resolvability.

Senior Management awareness and transparency: Barclays Treasury works closely with Central Risk, businesses and legal entities to support a proactive approach to identifying sources of capital ratio volatilities which are considered in the Group's capital plan. Capital risks against firm-specific and macroeconomic early warning indicators are monitored and reported to Treasury Committee, associated with clear escalation channels to senior management.

Capital management information is readily available at all times to support the Executive Management's strategic and day-to-day business decision making, as may be required.

The Group submits its Board approved ICAAP document to the PRA on an annual basis, which forms the basis of the Individual Capital Guidance (ICG) set by the PRA.

Capital allocation – Capital allocations are approved by the Group Executive committee and monitored by the Treasury Committee, taking into consideration the risk appetite, growth and strategic aims of the Group. Barclays Bank PLC (BBPLC) is the primary source of capital to its legal entities. Regulated legal entities are, at a minimum, allocated adequate capital to meet their current and forecast regulatory and business requirements.

Transferability of capital – The Group's policy is for surplus capital held in Group entities to be repatriated to BB PLC in the form of dividends and/or capital repatriation, subject to local regulatory requirements, exchange controls and tax implications. This approach provides optimal flexibility on the re-deployment of capital across legal entities. The Group is not aware of any material impediments to the prompt transfer of capital resources, in line with the above policy, or repayment of intra-group liabilities when due.

Foreign exchange risk – The Group has capital resources and risk weighted assets denominated in foreign currencies. Changes in foreign exchange rates result in changes in the Sterling equivalent value of foreign currency denominated capital resources and RWAs. As a result, the Group's regulatory capital ratios are sensitive to foreign currency movements.

The Group's capital ratio management strategy is to minimise the volatility of the capital ratios caused by foreign exchange rate movements. To achieve this, the Group aims to maintain the ratio of foreign currency CET1, Tier 1 and Total capital resources to foreign currency RWAs the same as the Group's consolidated capital ratios.

The Group's investments in foreign currency subsidiaries and branches, to the extent that they are not hedged for foreign exchange movements, translate into GBP upon consolidation creating CET1 capital resources sensitive to foreign currency movements. Changes in the GBP value of the investments due to foreign currency movements are captured in the currency translation reserve, resulting in a movement in CET1 capital.

To create foreign currency Tier 1 and Total Capital resources additional to the CET1 capital resources, the Group issues, where possible, debt capital in non-Sterling currencies. This is primarily achieved by the issuance of debt capital from Barclays PLC or Barclays Bank PLC in USD and EUR, but can also be achieved by subsidiaries issuing capital in local currencies, such as Barclays Africa Group Limited in South Africa.

Management of reputation, conduct and environmental risks

This section provides an analysis of the management of reputation, conduct and environmental risk.

- Reputation risk is the risk of damage to the Barclays brand arising from association, action or inaction which is perceived by stakeholders to be inappropriate or unethical (see pages 161 and 162)
- Conduct risk is the risk that detriment is caused to our customers, clients, counterparties or the Group and its employees because of inappropriate judgement in the execution of our business activities (see pages 163 and 164)
- Environmental risk arises either directly where the Group takes commercial land as collateral; indirectly where environmental issues may impact the credit worthiness of a borrower; or from damage to the Group's image through association with clients, transactions or projects, if perceived by external stakeholders to be environmentally damaging (see page 164)

Management of reputation, conduct and environmental risks

Reputation risk

The risk of damage to the Group's brand arising from any association, action or inaction which is perceived by stakeholders (e.g. customers, clients, colleagues, shareholders, regulators, opinion formers) to be inappropriate or unethical.

Overview

Damage to the Group's brand and consequent erosion of our reputation reduces the attractiveness of the Group to stakeholders and may lead to negative publicity, loss of revenue, regulatory or legislative action, loss of existing and potential client business, reduced workforce morale and difficulties in recruiting talent. Ultimately it may destroy shareholder value.

Reputation risk may arise in many different ways, for example:

- Failure to act in good faith and in accordance with the Group's values and code of conduct;
- Failure (real or perceived) to comply with the law or regulation, or association (real or implied) with illegal activity;
- Failures in corporate governance, management or technical systems;
- Failure to comply with internal standards and policies;
- Association with controversial sectors or clients;
- Association with controversial transactions, projects, countries or governments;
- Association with controversial business decisions, including but not restricted to, decisions relating to: products (in particular new products), delivery channels, promotions/advertising, acquisitions, branch representation, sourcing/supply chain relationships, staff locations, treatment of financial transactions; and
- Association with poor employment practices.

In each case, the risk may arise from failure to comply with either stated or expected norms, which are likely to change over time, so an assessment of reputation risk cannot be static. If not managed effectively, stakeholder expectations of responsible corporate behaviour will not be met.

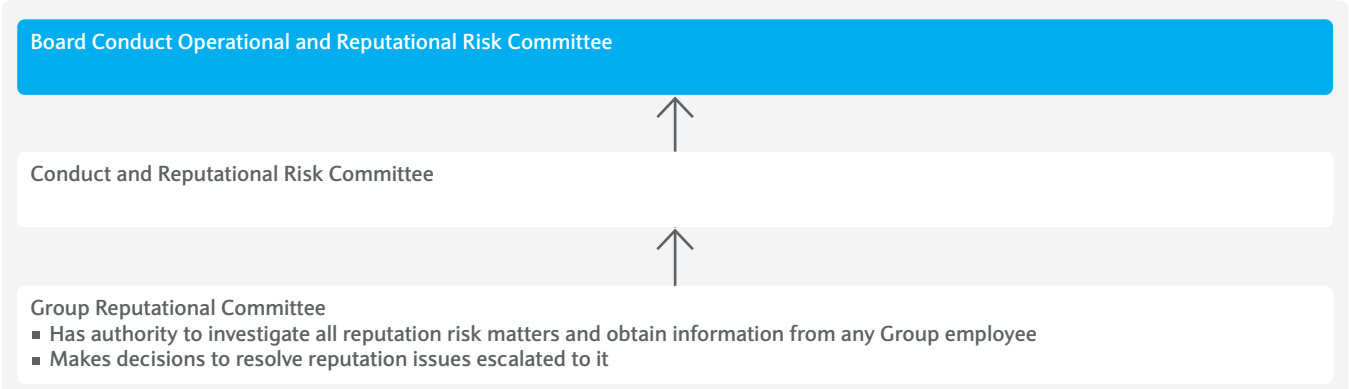
The Group designated reputation risk as a Principal Risk and developed procedures and resources, including the Reputation Risk Principal and Key Risk Framework (the Framework), to support businesses and functions in dealing with reputation risks arising in their areas of activity. This Framework aligned to the overarching Group ERMF. In 2015 reputation risk has been re-designated as a Key Risk under the Conduct Risk Principal Risk.

The Framework sets out what is required to ensure reputation risk is managed effectively and consistently across the Group. Reputation risk is by nature pervasive and can be difficult to quantify, requiring more subjective judgement than many other risks. The Framework is designed explicitly in the light of that subjectivity and, together with supporting tools, policies and procedures, provides a holistic view of how the Group managed reputation risk during the year.

The following policies, tools and guidance support the Group's businesses and functions in implementing the requirements of the Framework:

- **The Barclays Way (Code of Conduct):** sets out in one place what it means to work in the Group and the standards and behaviours expected of all colleagues. It gives examples of how the Barclays Values should be put into practice in decision-making and highlights the responsibility of individuals to challenge poor practice whenever and wherever it occurs;
- **The Barclays Guide:** outlines the Group's governance framework and contains information about how the Group organises, manages and governs itself;
- **Reputation Risk Appetite:** is the level of risk that the Group is prepared to accept while pursuing its business strategy, recognising a range of possible outcomes as business plans are implemented; and
- **The Barclays Lens:** is an assessment tool made up of five simple questions designed to ensure that the interests of our customers, clients, shareholders and communities are taken into account in the decisions we make every day. The Lens is applied alongside other decision-making tools to help the Group move beyond legal, regulatory and compliance concerns to consider broader societal impacts and opportunities.

Organisation and Structure



The reputation risk governance structure links the Board of Barclays Bank PLC, senior management and other fora to create a vehicle for the oversight of reputation risk. The Conduct and Reputational Risk Committee (CRRC) is the designated Key Risk forum for Reputation Risk.

The Group Reputation Committee is a sub-committee of the CRRC, from which it derives its authority. It has license to investigate any matters within its responsibilities and obtain information as required from any employee of the Group, and to make decisions to resolve reputation issues escalated to it.

Each business (and function where appropriate) has a clearly defined procedure for escalation of reputation risks as part of their risk oversight process. This includes a reputation risk sub-committee (or equivalent) of their Executive Committee, which has representation from appropriate specialists e.g.: the Head of Communications. Business Risk Oversight Committee meetings consider all Principal Risks, and reputation risk as a Key Risk under conduct risk, as they relate to the associated businesses or region.

Roles and responsibilities

The principal responsibility for managing reputation risk lies with each business and function and, firstly, with the individuals responsible for making decisions that could impact Barclays' reputation. There will, however, be circumstances where it is necessary to escalate the evaluation of the reputation risk associated with particular decisions beyond an individual, business or function.

The Group's businesses and functions escalate material reputation risk issues to the Group Reputation Committee via their risk oversight process, which has a specified means of considering reputation related issues on an ad hoc basis as they arise (e.g.: a reputation risk sub-committee or equivalent). Issues may merit escalation due to i) the degree of risk involved; ii) the fact that the issue sets a significant precedent; or iii) the fact that the issue impacts on more than one of the Group's businesses.

Each business (and function/region where appropriate) submits quarterly KRI reports to the Group Reputation Risk team, highlighting their most significant current and potential reputation risks and issues and how they are being managed. Reputation risk reporting takes the following forms:

- Quarterly reporting of key reputation risks via Business Risk Oversight Committees to Group Reputation Committee and CRRC;
- Six monthly reputation risk horizon scan reports, including current and emerging priority reputation risks to BCORR; and
- Ad hoc review of identified reputationally controversial issues/ transactions/relationships by business reputation committees, with escalation to Group Reputation Committee, where required.

Conduct risk

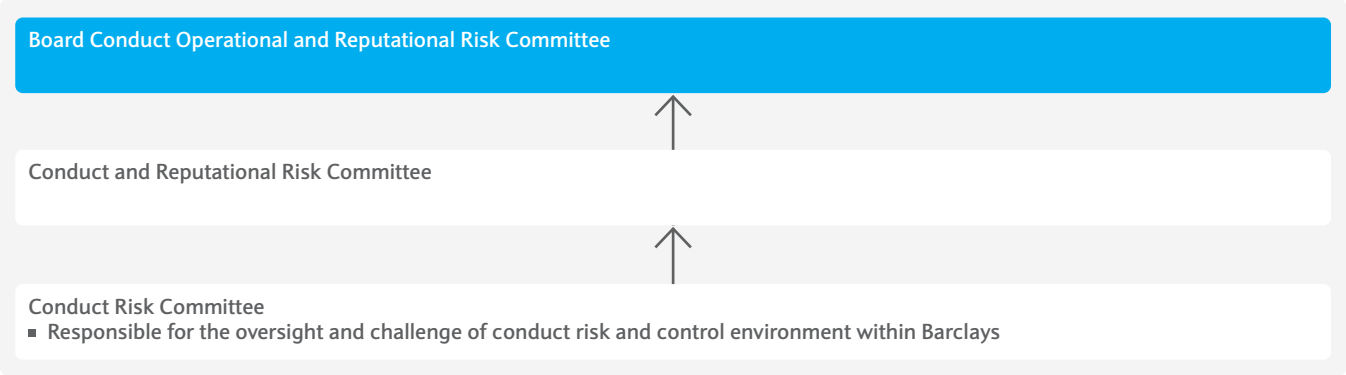
Conduct risk is the risk that detriment is caused to customers, clients, counterparties or the Group because of inappropriate judgement in the execution of the Group's business activities.

Overview

The Group defines, manages and mitigates conduct risk with the goal of providing good customer outcomes and protecting market integrity. The Group has defined ten outcomes which are positive indicators that it is delivering good customer outcomes and protecting market integrity:

- Culture places customer interests at the heart of our strategy, planning, decision making and judgements;
- Strategy is to develop long term banking relationships with our customers by providing products and services that meet their needs and do not cause detriment;
- Does not disadvantage or exploit customers, customer segments or markets and does not distort market competition;
- Proactively identifies conduct risks and intervene before they crystallise by managing, escalating and mitigating them promptly;
- Products, services and distribution channels are designed, monitored and managed to provide value, accessibility, transparency, and to meet the needs of our customers;
- Provides banking products and services that meet our customers' expectations and perform as represented. Representations are accurate and comprehensible so customers understand the products and services they are purchasing;
- Addresses any customer detriment and dissatisfaction in a timely and fair manner;
- Safeguards the privacy of personal data;
- Does not conduct or facilitate market abuse; and
- Does not conduct or facilitate financial crime.

Organisation and Structure



The CRRC is a sub-committee of the BCORR. The principal purpose of the CRRC is to review and monitor the effectiveness of Barclays' management of Conduct and Reputation Risk.

The Conduct Risk Committee (CRC) is a senior executive body responsible for the oversight and challenge of conduct risk and the control environment within Barclays. The output of the CRC are presented to the CRRC and BCORR.

In addition, specific committees monitor conduct risk and the control environment at the business level.

Roles and responsibilities

The Conduct Risk Principal Risk Framework (PRF) comprises a number of elements that allows the Group to manage and measure its conduct risk profile. The PRF is implemented across the Group:

- Vertically, through an organisational structure that requires all businesses to implement and operate their own conduct risk framework that meets the requirements detailed within the ERMF; and
- Horizontally, with Group Key Risk Officers (KROs) required to monitor information relevant to their Key Risk from each element of the Conduct Risk PRF.

The primary responsibility for managing conduct risk and compliance with control requirements is with the business where the risk arises. The Conduct Risk Accountable Executive for each business is responsible for ensuring the implementation of and compliance with the Group Conduct Risk framework.

The Conduct Principal Risk Owner is responsible for owning and maintaining an appropriate Group-wide Conduct Risk PRF and for overseeing Group-wide Conduct Risk management.

Businesses are required to report their conduct risks on both a quarterly and an event-driven basis. The quarterly reports detail conduct risks inherent within the business strategy and include forward-looking horizon-scanning analysis as well as backward-looking evidence-based indicators from both internal and external sources.

Business-level reports are reviewed within Compliance. Compliance then creates Group-level reports for consideration by CRC, CRRC and BCORR. The Group periodically assesses its management of conduct risk through independent audits and addresses issues identified.

Event-driven reporting consists of any risks or issues that breach certain thresholds for severity and probability. Any such risks or issues must be promptly escalated to the business and the appropriate KRO.

Management of Conduct Risk

Conduct risk management includes the following elements:

Conduct material risk assessments: accountable executives must complete a top-down assessment of their business model and strategy. The analysis should take into consideration both internal (e.g. historic and current business strategy and banking activities) and external factors (e.g. economic and regulatory environment). This must identify all conduct risks arising from the business model, strategy or banking activity and must include recommendations and management actions to address the conduct risks identified. These assessments must then be presented to Business Risk Oversight Committees. These assessments are reflected in Conduct Risk Reports.

Conduct risk appetite: conduct risk is a non-financial risk and is intrinsic in all of the Group's banking activities. There is no appetite for customer detriment resulting from inappropriate judgements in the execution of its business activities. Conduct risk appetite is aligned to the Group Risk Appetite Framework. BCORR considers and recommends to the Board for approval, via the BEWRC, the Group's conduct risk appetite statement.

Conduct risk reporting: accountable executives must produce a quarterly Conduct Risk Report which documents their businesses' approach to understand, monitor, manage and control conduct risk.

Risk and issue reporting: risk and issue reporting provides additional senior management visibility of any conduct risks or issues that breach certain severity and probability thresholds. Thresholds have been set across the Group; any risk or issue that breaches these must be reported to BCORR (via CRRC). In addition, any risks or issues that breach more significant probability thresholds must also be escalated promptly to the business and the appropriate KRO.

Business conduct performance management information: businesses are expected to evaluate how effectively they are managing conduct risks including against metrics that align with the Key Risk Frameworks and the ten outcomes. Barclays is developing a range of business specific and Group metrics and measures which will further improve its ability to monitor and assess the identification and management of conduct risks.

Environmental Risk

The Group has a dedicated Environmental Risk Management team which is a part of the central Credit Risk Management function, recognising that environment is a mainstream credit risk issue. Environmental issues are required considerations in credit risk assessment, and environmental risk standards are included in the Wholesale Credit Risk Control Framework.

The Group's approach to environmental credit risk management addresses risk under any of three categories:

Direct Risk can arise when the Group takes commercial land as collateral. In many jurisdictions, enforcement of a commercial mortgage by the bank, leading to possession, potentially renders the Group liable for the costs of remediating a site if deemed by the regulator to be contaminated, including for pre-existing conditions. In the UK, the Group's approach requires commercial land, if being pledged as collateral, to be subject to a screening mechanism. Assessment of the commercial history of a piece of land and its potential for environmental contamination helps ensure any potential environmental degradation is reflected in the value ascribed to that security. It also identifies potential liabilities which may be incurred by the Group, if realisation of the security were to become a possibility.

Indirect Risk can arise when environmental issues may impact the creditworthiness of the borrower. For instance, incremental costs may be incurred in upgrading a business' operations to meet emerging environmental regulations or tightening standards. In other circumstances, failure to meet those standards may lead to fines. Environmental impacts on businesses may also include shifts in the market demand for goods or services generated by our customers, or changing supply chain pressures. Environmental considerations affecting our clients can be varied. The bank has developed a series of environmental risk briefing notes, covering ten broad industry headings ranging from Agriculture and Fisheries to Oil and Gas, from Mining and Metals to Utilities and Waste Management. These briefing notes are available to colleagues in business development and credit risk functions across the organisation, outlining the nature of environmental and social risks of which to be aware, as well as the factors which mitigate those risks.

Reputation Risk may arise and cause damage to the Group's image, through association with clients, their transactions or projects if these are perceived by external stakeholders to be environmentally damaging. Where the Group is financing infrastructure projects which have potentially adverse environmental impacts, the Group's Client Assessment and Aggregation policy and supporting Environmental and Social Risk Standard will apply. This policy identifies the circumstances in which the Group requires due diligence to include assessment of specialist environmental reports. These reports will include consideration of a wide range of the project's potential impacts including on air, water and land quality, on biodiversity issues, on locally affected communities, including any material upstream and downstream impacts, and working conditions together with employee and community health and safety. Adherence to the Environmental and Social Risk Standard is the mechanism by which Barclays fulfils the requirements of the Equator Principles. These Principles are an internationally recognised framework for environmental due diligence in project finance. Barclays was one of the four banks which collaborated in developing the Principles, ahead of their launch in 2003 with 10 adopting banks. There are now 80 banks worldwide which have adopted the Equator Principles (see www.equator-principles.com).

Further details on the Group approach to environmental risk management can be found at barclays.com, in the section on Citizenship; the way we do business, 'Sustainability Risk in Lending''.

Appendices
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Appendices
Appendix A – PD, LGD, RWA and Exposure by country

The following tables show IRB data for countries in which Barclays is active where the IRB RWA amount is more than 1% of the Group total for any asset class. The countries are shown in descending order of aggregated total RWAs for all asset classes.

Table 74: PD, LGD, RWA and Exposure values by country for IRB – all asset classes

Asset Class – all asset classes

Country	PD	LGD	RWA	Exposure	Country	PD	LGD	RWA	Exposure
United Kingdom	3.37%	32.2%	93,659	279,633	Brazil	0.41%	46.6%	704	1,159
United States	0.68%	37.8%	20,693	64,969	India	0.26%	54.4%	661	996
South Africa	5.25%	35.1%	20,367	38,472	Belgium	0.78%	49.5%	553	1,906
Italy	3.63%	28.0%	7,115	17,959	Mexico	3.52%	49.5%	547	973
Germany	1.29%	54.2%	4,208	11,876	Korea	0.18%	48.1%	367	1,287
Spain	5.65%	29.9%	3,986	12,875	Austria	0.70%	46.8%	346	816
France	0.24%	40.2%	3,292	10,089	Taiwan	0.40%	45.3%	288	846
Netherlands	0.41%	44.2%	2,457	6,947	Iceland	76.53%	30.6%	287	117
Ireland	0.65%	45.1%	2,422	4,998	China	0.06%	48.8%	216	1,041
Luxembourg	0.49%	45.4%	2,013	6,541	Saudi Arabia	0.05%	45.1%	130	1,851
Japan	0.07%	46.0%	1,289	6,738	Hungary	0.24%	55.1%	79	84
Portugal	4.94%	32.9%	1,247	3,340	Slovenia	0.09%	46.7%	34	40
Jersey	0.95%	32.5%	1,153	1,881	Kuwait	0.04%	45.7%	27	456
Russia	0.38%	59.7%	1,059	1,238	Ghana	3.84%	45.9%	23	20
Switzerland	0.23%	45.2%	747	3,641					

Table 74a: PD, LGD, RWA and Exposure values by country for IRB – central governments and central banks

Asset Class – Central Governments and Central Banks

Country	PD	LGD	RWA	Exposure	Country	PD	LGD	RWA	Exposure
United Kingdom	0.01%	40.8%	67	4,365	Brazil	0.39%	48.0%	14	35
United States	0.01%	45.0%	70	1,102	India	0.37%	45.0%	70	166
South Africa	0.18%	15.8%	134	756	Belgium	0.01%	45.0%	20	383
Italy	0.11%	45.0%	2,015	2,503	Mexico	0.18%	45.0%	36	211
Germany	0.01%	45.0%	159	981	Korea	0.06%	45.0%	41	358
Spain	0.25%	45.0%	52	65	Austria	0.01%	45.0%	20	132
France	0.01%	45.0%	70	952	Taiwan	0.05%	45.0%	26	308
Netherlands	0.01%	45.0%	31	315	Iceland	0.12%	63.0%	1	1
Ireland	0.04%	50.0%	11	42	China	0.05%	53.0%	35	418
Luxembourg	0.01%	45.0%	123	1,234	Saudi Arabia	0.05%	45.0%	112	1,764
Japan	0.06%	45.0%	226	2,446	Hungary	0.24%	48.0%	27	23
Portugal	0.33%	50.0%	84	108	Slovenia	0.09%	46.6%	33	40
Jersey	–	–	–	–	Kuwait	0.04%	45.0%	19	426
Russia	0.16%	58.0%	7	10	Ghana	5.40%	45.0%	22	14
Switzerland	0.01%	45.0%	–	67					

Table 74b: PD, LGD, RWA and Exposure values by country for IRB – institutions

Asset Class – Institutions

Country	PD	LGD	RWA	Exposure	Country	PD	LGD	RWA	Exposure
United Kingdom	0.08%	47.4%	3,239	12,267	Brazil	0.37%	45.2%	635	1,022
United States	0.05%	29.2%	1,820	10,153	India	0.47%	51.4%	184	226
South Africa	0.52%	46.2%	575	1,360	Belgium	0.03%	53.3%	418	1,072
Italy	0.45%	45.2%	368	306	Mexico	0.20%	45.0%	103	266
Germany	0.05%	45.7%	1,536	3,534	Korea	0.06%	47.0%	111	471
Spain	0.18%	46.4%	333	370	Austria	0.09%	45.1%	161	448
France	0.05%	37.0%	1,573	4,859	Taiwan	0.09%	45.0%	63	191
Netherlands	0.03%	45.4%	449	1,780	Iceland	85.29%	29.6%	278	105
Ireland	0.21%	45.6%	185	263	China	0.06%	44.8%	143	511
Luxembourg	0.03%	53.1%	148	768	Saudi Arabia	0.05%	46.3%	16	67
Japan	0.06%	45.5%	639	2,904	Hungary	0.41%	45.0%	16	17
Portugal	1.06%	45.0%	82	73	Slovenia	–	–	–	–
Jersey	0.29%	45.1%	–	1	Kuwait	0.08%	51.9%	6	21
Russia	0.26%	55.3%	265	375	Ghana	0.22%	47.9%	1	6
Switzerland	0.03%	43.9%	309	1,991					

Appendix A – PD, LGD, RWA and Exposure by country

Table 74c: PD, LGD, RWA and Exposure values by country for IRB – corporates

Asset Class – Corporates

Country	PD	LGD	RWA	Exposure	Country	PD	LGD	RWA	Exposure
United Kingdom	2.30%	37.4%	44,675	81,212	Brazil	0.26%	60.8%	54	99
United States	0.82%	39.3%	18,795	53,695	India	0.15%	58.1%	407	604
South Africa	3.70%	43.2%	10,666	14,432	Belgium	3.13%	44.7%	113	446
Italy	0.26%	43.1%	610	1,309	Mexico	6.74%	53.9%	408	495
Germany	0.41%	49.0%	1,582	4,794	Korea	0.40%	51.7%	215	458
Spain	4.43%	48.7%	959	1,408	Austria	2.25%	51.1%	164	236
France	0.45%	42.7%	1,644	4,263	Taiwan	0.89%	45.7%	199	347
Netherlands	0.54%	43.7%	1,973	4,842	Iceland	0.29%	38.1%	7	11
Ireland	0.30%	45.2%	2,194	4,653	China	0.09%	51.5%	38	111
Luxembourg	0.70%	44.2%	1,741	4,535	Saudi Arabia	0.05%	54.8%	2	18
Japan	0.14%	49.0%	423	1,388	Hungary	0.13%	63.3%	35	43
Portugal	1.92%	47.1%	146	164	Slovenia	–	–	–	–
Jersey	0.94%	32.5%	1,153	1,879	Kuwait	0.04%	68.1%	1	8
Russia	0.42%	61.9%	785	848	Ghana	–	–	–	–
Switzerland	0.42%	47.3%	428	1,557					

Table 74d: PD, LGD, RWA and Exposure values by country for IRB – SME retail

Asset Class – SME Retail

Country	PD	LGD	RWA	Exposure	Country	PD	LGD	RWA	Exposure
United Kingdom	8.64%	34.9%	3,526	7,699	Brazil	–	–	–	–
United States	–	–	–	–	India	–	–	–	–
South Africa	4.85%	56.0%	673	1,124	Belgium	–	–	–	–
Italy	–	–	–	–	Mexico	–	–	–	–
Germany	–	–	–	–	Korea	–	–	–	–
Spain	–	–	–	–	Austria	–	–	–	–
France	80.28%	21.6%	1	1	Taiwan	–	–	–	–
Netherlands	–	–	–	–	Iceland	–	–	–	–
Ireland	–	–	–	–	China	–	–	–	–
Luxembourg	–	–	–	–	Saudi Arabia	–	–	–	–
Japan	–	–	–	–	Hungary	–	–	–	–
Portugal	–	–	–	–	Slovenia	–	–	–	–
Jersey	10.25%	14.1%	–	2	Kuwait	–	–	–	–
Russia	–	–	–	–	Ghana	–	–	–	–
Switzerland	–	–	–	–					

Table 74e: PD, LGD, RWA and Exposure values by country for IRB – secured retail

Asset Class – Secured Retail

Country	PD	LGD	RWA	Exposure	Country	PD	LGD	RWA	Exposure
United Kingdom	2.7%	11.8%	19,856	130,902	Brazil	19.5%	20.7%	1	3
United States	6.7%	25.1%	7	19	India	–	–	–	–
South Africa	6.7%	13.1%	3,623	13,898	Belgium	8.6%	21.4%	1	6
Italy	4.6%	23.1%	4,120	13,832	Mexico	2.1%	22.9%	–	1
Germany	16.6%	18.9%	3	9	Korea	–	–	–	–
Spain	5.7%	24.9%	2,277	10,683	Austria	0.6%	20.6%	–	1
France	11.9%	25.7%	5	15	Taiwan	–	–	–	–
Netherlands	20.8%	30.0%	4	10	Iceland	–	–	–	–
Ireland	44.8%	29.6%	31	40	China	1.3%	24.4%	–	1
Luxembourg	4.0%	25.7%	1	3	Saudi Arabia	2.7%	19.7%	1	2
Japan	–	–	–	–	Hungary	2.8%	28.4%	–	1
Portugal	5.4%	31.2%	935	2,995	Slovenia	–	–	–	–
Jersey	–	–	–	–	Kuwait	–	–	–	–
Russia	1.8%	22.8%	2	6	Ghana	–	–	–	–
Switzerland	4.0%	25.0%	10	25					

Appendix A – PD, LGD, RWA and Exposure by country

Table 74f: PD, LGD, RWA and Exposure values by country for IRB – revolving retail

Asset Class – Revolving Retail									
Country	PD	LGD	RWA	Exposure	Country	PD	LGD	RWA	Exposure
United Kingdom	7.0%	77.2%	16,668	38,341	Brazil	–	–	–	–
United States	–	–	–	–	India	–	–	–	–
South Africa	6.9%	75.7%	1,714	2,705	Belgium	–	–	–	–
Italy	–	–	–	–	Mexico	–	–	–	–
Germany	5.1%	79.2%	927	2,557	Korea	–	–	–	–
Spain	16.2%	87.4%	365	350	Austria	–	–	–	–
France	–	–	–	–	Taiwan	–	–	–	–
Netherlands	–	–	–	–	Iceland	–	–	–	–
Ireland	–	–	–	–	China	–	–	–	–
Luxembourg	–	–	–	–	Saudi Arabia	–	–	–	–
Japan	–	–	–	–	Hungary	–	–	–	–
Portugal	–	–	–	–	Slovenia	–	–	–	–
Jersey	–	–	–	–	Kuwait	–	–	–	–
Russia	–	–	–	–	Ghana	–	–	–	–
Switzerland	–	–	–	–					

Table 74g: PD, LGD, RWA and Exposure values by country for IRB – other retail exposures

Asset Class – Other Retail Exposures									
Country	PD	LGD	RWA	Exposure	Country	PD	LGD	RWA	Exposure
United Kingdom	13.1%	89.9%	5,628	4,846	Brazil	–	–	–	–
United States	–	–	–	–	India	–	–	–	–
South Africa	7.4%	47.9%	2,983	4,197	Belgium	–	–	–	–
Italy	90.4%	90.8%	3	10	Mexico	–	–	–	–
Germany	–	–	–	–	Korea	–	–	–	–
Spain	–	–	–	–	Austria	–	–	–	–
France	–	–	–	–	Taiwan	–	–	–	–
Netherlands	–	–	–	–	Iceland	–	–	–	–
Ireland	–	–	–	–	China	–	–	–	–
Luxembourg	–	–	–	–	Saudi Arabia	–	–	–	–
Japan	–	–	–	–	Hungary	–	–	–	–
Portugal	–	–	–	–	Slovenia	–	–	–	–
Jersey	–	–	–	–	Kuwait	–	–	–	–
Russia	–	–	–	–	Ghana	–	–	–	–
Switzerland	–	–	–	–					

Appendices
Appendix B – Disclosure on asset encumbrance

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations. Barclays funds a portion of trading portfolio assets and other securities via repurchase agreements and other similar borrowing and pledges a portion of customer loans and advances as collateral in securitisation, covered bond and other similar structures. Barclays monitors the mix of secured and unsecured funding sources within the Group's funding plan and seeks to efficiently utilise available collateral to raise secured funding and meet other collateralised obligations.

Template A – Assets

		Carrying amount of encumbered assets 010 £bn	Fair value of encumbered assets 040 £bn	Carrying amount of unencumbered assets 060 £bn	Fair value of unencumbered assets 090 £bn
010	**Assets of the reporting institution**	202.9		1,147.0	
030	Equity instruments	21.0	21.0	29.6	29.6
040	Debt securities	40.8	40.8	115.4	115.4
120	Other assets	–		476.8	

Template B – Collateral received

		Fair value of encumbered collateral received or own debt securities issued 010 £bn	Fair value of collateral received or own debt securities issued available for encumbrance 040 £bn
130	**Collateral received by the reporting institution**	313.4	80.3
150	Equity instruments	52.9	11.1
160	Debt securities	257.0	68.8
230	Other collateral received	–	–
240	**Own debt securities issued other than own covered bonds or ABSs**	–	1.7

Template C – Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent 010 £bn	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered 040 £bn
010	**Carrying amount of selected financial liabilities**	259.1	360.1

As at 31 December 2014, £208bn of the Group's assets were encumbered, which primarily related to firm financing of trading portfolio assets and other securities, cash collateral and secured funding against loans and advances to customers. Encumbered assets have been identified in a manner consistent with the Group's reporting requirements under European Capital Requirements Regulation (CRR). Securities and commodities assets are considered encumbered when they have been pledged or used to secure, collateralise or credit enhance a transaction which impacts their transferability and free use.

Remuneration

The following tables show the remuneration awards made to Barclays' Material Risk Takers (MRTs) in respect of the 2014 performance year. Information on decision-making policies for remuneration and the links between pay and performance and Barclays' remuneration policy and process (including information on remuneration design, performance measurement and risk adjustment, deferral and vesting, fixed to variable remuneration ratio and variable remuneration and benefits policy) is contained in the Directors' remuneration report (DRR) of the 2014 Annual Report, which can be found on pages 77 to 110 of the 2014 Annual Report.

The disclosures in the DRR and below reflect the requirements of the Capital Requirements Regulation to the extent applicable to the 2014 performance year.

MRTs
MRTs are the members of the Barclays PLC Board and Barclays' employees whose professional activities could have a material impact on the Group's risk profile. A total of 1,277 individuals were MRTs in 2014 (2013: 530).

MRT aggregate 2014 remuneration by business

	Investment Bank £m	Personal and Corporate Banking £m	Barclaycard £m	Africa £m	Group Functions £m	Non-Core £m
	748	124	11	30	175	44

MRT aggregate 2014 remuneration by remuneration type

	Senior management £m	Other MRTs £m
Fixed Pay	25	522
Current year cash bonus	2	44
Current year share bonus	2	39
Deferred cash bonus	3	242
Deferred share bonus	4	245
Total	**36**	**1,092**
Long-term incentive award (outcome contingent on future performance)	5	–

Value of long-term incentive awards is the face value.

MRT deferred remuneration

	Senior management £m	Other MRTs £m
Deferred unvested remuneration outstanding at 31 December 2013	**210**	**1,492**
Impact of changes in MRT population including leavers during 2013 and joiners in 2014	(82)	166
Deferred unvested remuneration outstanding at 1 January 2014	**128**	**1,658**
Deferred remuneration awarded in 2014	40	892
Deferred remuneration reduced in 2014 through performance adjustments	(23)	(150)
Deferred remuneration vested in 2014	(59)	(761)
Deferred unvested remuneration outstanding at 31 December 2014	**86**	**1,639**

MRT joining and severance payments

	Senior management £m	Other MRTs £m
Total sign-on awards	–	–
Total buy-out awards (25 individuals)	4	21
Total severance awards (42 individuals; highest individual award £0.2m)	–	4

'Senior management' means members of the Barclays PLC Board and senior managers as defined in the PRA Remuneration Code.

MRT aggregate 2014 remuneration by band

The table below is prepared in Euros in accordance with Article 450 of the Capital Requirements Regulation, at an exchange rate of £1: €1.2626.

MRT aggregate 2014 remuneration by band

Remuneration Band	Number of MRTs
€1,000,001 to €1,500,000	279
€1,500,001 to €2,000,000	132
€2,000,001 to €2,500,000	59
€2,500,001 to €3,000,000	28
€3,000,001 to €3,500,000	19
€3,500,001 to €4,000,000	22
€4,000,001 to €4,500,000	7
€4,500,001 to €5,000,000	5
€5,000,001 to €6,000,000	5
€6,000,001 to €7,000,000	2
€8,000,001 to €9,000,000	1
€13,000,001 to €14,000,000	1

Appendix D – CRD IV reference

Table 75: CRD IV reference

CRR ref.	High-level summary	Compliance reference
Scope of disclosure requirements		
431 (1)	Requirement to publish Pillar 3 disclosures.	Barclays publishes Pillar 3 disclosures
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.	The Operational Risk section on pages 152 and 153 contains a description of the operational risk framework, and required Pillar 3 disclosures.
431 (3)	Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	Barclays has a dedicated Pillar 3 policy.
431 (4)	Explanation of ratings decision upon request.	Barclays provides explanations of rating decisions to SMEs whose loan applications were declined in writing, and suggests alternative sources of finance. Barclays participates in a formal appeals process, one of the successful initiatives implemented as part of Business Finance Taskforce, with a government-appointed overseer. In the case of larger corporates, written explanations are not usually requested as direct discussions with relationship managers take place.
Non-material, proprietary or confidential information		
432 (1)	Institutions may omit information that is not material if certain conditions are respected.	Compliance with this provision is covered by Barclays' policy.
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected.	Compliance with this provision is covered by Barclays' policy.
432 (3)	Where 432 (1) and (2) apply this must be stated in the disclosures, and more general information must be disclosed.	This table specifies where disclosures are omitted.
432 (4)	Use of 432 (1) or (2) is without prejudice to scope of liability for failure to disclose material information.	
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum, and more frequently if necessary.	Compliance with this provision is covered by Barclays' policy. See under 'Notes on basis of preparation' (page 5).
Means of disclosures		
434 (1)	To include of disclosures in one appropriate medium, or provide clear cross-references.	Most disclosures are contained within this document. Signposting directs the reader to other publications where appropriate.
434 (2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate.	Any cross-references to accounting or other disclosures are clearly signposted in this document. In particular, see page 179 for 'Location of risk disclosures'.
Risk management objectives and policies		
435 (1) (a)	Disclose information on strategies and processes; organisational structure, reporting systems and risk mitigation/hedging.	Risk management strategy: pages 99 to 110 Credit Risk: pages 111 to 131 Market Risk: pages 136 to 146 Operational Risk: pages 151 to 154 Counterparty Credit Risk: pages 132 to 135 Other Principal Risks: Funding Risk – Capital: pages 158 and 159 in this report, and pages 132 and 133 of the 2014 Annual Report
435 (1) (b)		Funding Risk – Liquidity: pages 156 to 158 in this report, and page 134 of the 2014 Annual Report
435 (1) (c)		Conduct Risk: pages 163 and 164 in this report, and pages 137 and 138 of the 2014 Annual Report
435 (1) (d)		Reputation Risk: pages 161 and 162 in this report, and pages 139 and 140 of the 2014 Annual Report
435 (1) (e)	Inclusion of a declaration approved by the Board on adequacy of risk management arrangements.	See page 105 for 'Effectiveness of risk management arrangements'. This statement covers all Principal Risks.
435 (1) (f)	Inclusion of a concise risk statement approved by the Board.	Please see page 105. This statement covers all Principal Risks.
435 (2)	Information on governance arrangements, including information on Board composition and recruitment, and risk committees.	See pages 101 to 103 for a description of the risk committees. Pages 40 to 69 of the 2014 Annual Report contains information on Board composition, experience and recruitment.
435 (2) (a)	Number of directorships held by directors.	Please see pages 34 to 36 of the 2014 Annual Report.
435 (2) (b)	Recruitment policy of Board members, their experience and expertise.	Please see pages 34 to 36 of the 2014 Annual Report.
435 (2) (c)	Policy on diversity of Board membership and results against targets.	Please see pages 34 to 36 of the 2014 Annual Report.
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	Please see pages 40 to 69 of the 2014 Annual Report.
435 (2) (e)	Description of information flow on risk to Board.	Figure on page 102 in the risk management strategy section illustrates the reporting structure to Board committees.

Table 75 continued

CRR ref.	High-level summary	Compliance reference
Scope of application		
436 (a)	Name of institution.	See under 'Scope of consolidation' (page 9).
436 (b)	Difference in basis of consolidation for accounting and prudential purposes, naming entities that are:	Figure 1: Summary of regulatory scope of consolidation as at 31 December 2014
436 (b) (i)	Fully consolidated;	
436 (b) (ii)	Proportionally consolidated;	
436 (b) (iii)	Deducted from own funds;	
436 (b) (iv)	Neither consolidated nor deducted.	
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	There are no such impediments. Please see page 159.
436 (d)	Capital shortfalls in any subsidiaries outside of scope of consolidation.	Entities outside the scope of consolidation are appropriately capitalised.
436 (e)	Making use of articles on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries/entities.	Barclays makes use of these provisions according to its waiver from the PRA.
Own funds		
437 (1)	Requirements regarding capital resources table.	Page 16 / Table 5: Capital resources
437 (1) (a)		Page 17 / Table 6: Summary of movements in capital resources
437 (1) (b)		Pages 20 to 22 / Table 8: Summary of terms and conditions of capital resources. A more detailed template can be found at barclays.com/annualreport Full terms and conditions can be found at barclays.com/prospectuses-and-documentation/capital-and-securities-documentation.html with the exception of three individual notes for confidentiality reasons.
437 (1) (c)		
437 (1) (d) (i)		
437 (1) (d) (ii)		
437 (1) (d) (iii)		
437 (1) (e)		
437 (1) (f)		
437 (2)	EBA to publish implementation standards for points above.	Barclays follows the implementation standards.
Capital requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Discussions of capital calculations are contained in each risk type management section (credit, market and operational). General discussion on capital planning is on page 158.
438 (b)	Result of ICAAP on demand from authorities.	Barclays has not received this request from its regulator.
438 (c)	Capital requirement amounts for credit risk for each Standardised approach exposure class.	Pages 26 and 27 / Table 11: Detailed view of exposure at default, post-CRM by business (CRD IV comparative) Various other tables contain capital requirements throughout the report.
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based Approach exposure class.	Pages 26 and 27 / Table 11: Detailed view of exposure at default, post-CRM by business (CRD IV comparative) Various other tables Pages 66: Barclays shows a nil return for equity investments in 2014.
438 (d) (i)		
438 (d) (ii)		
438 (d) (iii)		
438 (d) (iv)		
438 (e)	Capital requirements amounts for market risk or settlement risk, or large exposures where they exceed limits.	Capital requirements for market risk are disclosed in Page 78 / Table 53: Minimum capital requirement for market risk.
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable.	Page 96 / Table 70: Risk weighted assets for operational risk
438 (endnote)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	Specialised lending exposures: Page 56 / Table 31: Corporate exposures subject to the slotting approach
		Equity exposures under the Simple approach: Page 66: Nil-return for equity investments in 2014.

Table 75 continued

CRR ref.	High-level summary	Compliance reference
Exposure to counterparty credit risk (CCR)		
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures.	Page 135
439 (b)	Discussion of process to secure collateral and establishing reserves.	Pages 133 and 134
439 (c)	Discussion of management of wrong-way exposures.	Pages 135
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	Liquidity risk management section: pages 156 and 157.
439 (e)	Derivation of net derivative credit exposure.	Page 69 / Table 45: Counterparty credit exposure by approach
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	Page 68/ Table 44: Counterparty credit exposures analysed by financial contract type
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	Page 70 / Table 47: Notional value of credit derivative contracts held for hedging purposes
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	Page 69 / Table 46: Notional exposure associated with credit derivative contracts
439 (i)	Estimate of alpha, if applicable.	The alpha used by Barclays is 1.4. See page 7.
Capital buffers		
440 (1) (a)	Geographical distribution of relevant credit exposures.	The capital buffer is not in force as at the time of publication. However, as a high level indication of the distribution of exposures, table 74 shows the banking book PD, LGD, IRB EAD and RWAs associated with each country in which Barclays operates. Trading book exposures would not currently be material for the calculation of the buffer. They will be disclosed once the calculation of the capital buffer is implemented.
440 (1) (b)	Amount of the institution specific countercyclical capital buffer.	
440 (2)	EBA will issue technical implementation standards related to 440 (1).	Barclays will comply with the standards once applicable.
Indicators of global systemic importance		
441 (1)	Disclosure of the indicators of global systemic importance.	Discussed on page 8.
441 (2)	EBA will issue technical implementation standards related to 441 (1).	Barclays will comply with the standards once applicable.
Credit risk adjustments		
442 (a)	Disclosure of bank's definitions of past due and impaired.	Impairment on page 268 of the 2014 Annual Report; online glossary for 'Past Due'. Pages 113 to 120 provide a complete description of credit quality measures.
442 (b)	Approaches for calculating credit risk adjustments.	Pages 116 to 120
442 (c)	Disclosure of pre-CRM EAD by exposure class.	See points 442 (d), (e), (f) below which break down this total.
442 (d)	Disclosures of pre-CRM EAD by geography and exposure class.	Pages 39 to 40 / Table 18: Geographic analysis of credit exposure
442 (e)	Disclosures of pre-CRM EAD by industry and exposure class.	Pages 41 to 43 / Table 19: Industry analysis of credit exposure
442 (f)	Disclosures of pre-CRM EAD by residual maturity and exposure class.	Pages 43 and 44 / Table 20: Residual maturity analysis credit exposures
442 (g)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type.	Page 61 / Table 36: Analysis of impaired and past due exposures and allowance for impairment by exposure type
442 (g) (i)		
442 (g) (ii)		
442 (g) (iii)		
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	Page 62 / Table 37: Geographic analysis of impaired and past due exposures and allowance for impairment
442 (i)	Reconciliation of changes in specific and general credit risk adjustments.	Page 62 / Table 38: Analysis of movement on impairment and amounts taken directly to profit and loss Page 63 / Table 39: Regulatory adjustments to statutory impairment
442 (i) (i)		
442 (i) (ii)		
442 (i) (iii)		
442 (i) (iv)		
442 (i) (v)		
442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately.	Page 62 / Table 38: Analysis of movement on impairment and amounts taken directly to profit and loss

Table 75 continued

CRR ref.	High-level summary	Compliance reference
Unencumbered assets		
443	Disclosures on unencumbered assets.	See appendix B.
Use of ECAIs		
444 (a)	Names of the ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	Page 46
444 (b)	Exposure classes associated with each ECAI.	Page 46
444 (c)	Explanation of the process for translating external ratings into credit quality steps.	Page 46
444 (d)	Mapping of external rating to credit quality steps.	Page 46 / Table 23: Relationship of long-term external credit ratings to credit quality steps under the Standardised approach Page 46 / Table 24: Credit quality steps and risk weights under the Standardised approach
444 (e)	Exposure value pre- and post-credit risk mitigation, by credit quality step.	Pages 47 / Table 25: Credit quality step analysis of pre-CRM exposure and capital deductions under the Standardised approach Page 48 / Table 26: Credit quality step analysis of post-CRM exposure and capital deductions under the Standardised approach
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Page 78 / Table 53: Minimum capital requirement for market risk
Operational risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	Pages 96 and 154
Exposure in equities not included in the trading book		
447 (a)	Differentiation of exposures based on objectives.	As per commentary on page 66 'The holding of non trading book equity positions is primarily related to the holding investments by the Private Equity business.'
447 (b)	Recorded and fair value, and actual prices of exchange traded equity where it differs from fair value.	Page 66 / Table 43: Fair value of, and gains and losses on equity investments
447 (c)	Types, nature and amounts of the relevant classes of equity exposures.	
447 (d)	Realised cumulative gains and losses on sales over the period.	
447 (e)	Total unrealised gains/losses, latent revaluation gains/losses, and amounts included within Tier 1 capital.	
Exposure to interest rate risk on positions not included in the trading book		
448 (a)	Nature of risk and key assumptions in measurement models.	Model assumptions on pages 145 and 146.
448 (b)	Variation in earnings or economic value, or other measures used by the bank from upward and downward shocks to interest rates, by currency.	Page 79 / Table 54: Net interest income sensitivity (AEaR) by business unit Page 79 / Table 55: Net interest income sensitivity (AEaR) by currency

Table 75 continued

CRR ref.	High-level summary	Compliance reference
Exposure to securitisation positions		
449	Exposure to securitisations positions.	
449 (a)	Objectives in relation to securitisation activity.	Page 148
449 (b)	Nature of other risks in securitised assets, including liquidity.	Pages 148 and 149
449 (c)	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets.	Page 149
449 (d)	The roles played by institutions in the securitisation process.	Page 148
449 (e)	Indication of the extent of involvement in these roles.	Page 148
449 (f)	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures.	Pages 148 and 149
449 (g)	Description of the institution's policies with respect to hedging and unfunded protection, and identification of material hedge counterparties.	Page 149
449 (h)	Approaches to calculation of RWA for securitisations mapped to types of exposures.	Page 149 'Rating methodologies, ECAIs and RWA calculations'
449 (i)	Types of SSPEs used to securitise third-party exposures, and list of SSPEs.	Page 148 'Sponsoring conduit vehicles'
449 (j)	Summary of accounting policies for securitisations:	Page 150 'Summary of the accounting policies for securitisation activities'
449 (j) (i)	Treatment of sales or financings;	
449 (j) (ii)	Recognition of gains on sales;	
449 (j) (iii)	Approach to valuing securitisation positions;	
449 (j) (iv)	Treatment of synthetic securitisations;	
449 (j) (v)	Valuation of assets awaiting securitisations;	
449 (j) (vi)	Recognition of arrangements that could require the bank to provide support to securitised assets.	
449 (k)	Names of ECAIs used for securitisations.	Page 149
449 (l)	Full description of Internal Assessment Approach.	Page 46 / Table 23 'Relationship of long-term external credit ratings to credit quality steps under the Standardised approach'
449 (m)	Explanation of changes in quantitative disclosures.	Satisfied throughout; we comment on every quantitative table in the securitisation section
449 (n)	Banking and trading book securitisation exposures:	
449 (n) (i)	Amount of outstanding exposures securitised;	Page 88 / Table 64: Outstanding amount of exposures securitised – Asset value and impairment charges
449 (n) (ii)	On balance sheet securitisation retained or purchased, and off-balance sheet exposures;	Page 89 / Table 65: Securitisation exposures – by exposure class
449 (n) (iii)	Amount of assets awaiting securitisation;	Page 87 / Table 63: Assets awaiting securitisation
449 (n) (iv)	Early amortisation treatment; aggregate drawn exposures, capital requirements;	There is no applicable data to publish in respect of this table See page 85
449 (n) (v)	Deducted or 1250%-weighted securitisation positions;	See page 85 Pages 90 and 91 / Table 66: Securitisation exposures – by capital approach Pages 92 and 93 / Table 67: Re-securitisation exposures – by risk weight band
449 (n) (vi)	Amount of exposures securitised and recognised gains or losses on sales.	Page 86 / Table 62: Securitisation activity during the year
449 (o)	Banking and trading book securitisations by risk band:	
449 (o) (i)	Retained and purchased exposure and associated capital requirements, broken down by risk-weight bands;	Pages 90 and 91 / Table 66: Securitisation exposures – by capital approach Pages 92 and 93 / Table 67: Re-securitisation exposures – by risk weight band
449 (o) (ii)	Retained and purchased re-securitisation exposures before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.	There is no applicable data to publish in respect of this table See page 85
449 (p)	Impaired assets and recognised losses related to banking book securitisations, by exposure type.	Page 88 / Table 64: Outstanding amount of exposures securitised – Asset value and impairment charges
449 (q)	Exposure and capital requirements for trading book securitisations, separately into traditional.	
449 (r)	Whether the institution has provided financial support to securitisation vehicles.	Any such support would have to be disclosed in Note 39 of the 2014 Annual Report

Table 75 continued

CRR ref.	High-level summary	Compliance reference
Remuneration disclosures		
450	Remuneration	Appendix C contains the remuneration awards made to Barclays' Material Risk Takers. See the Directors' remuneration report (DRR) of the 2014 Annual Report for other remuneration disclosures.
Leverage		
451 (1) (a)	Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	Page 34 / Table 15: Leverage ratio
451 (1) (b)		Page 34 / Table 15: Leverage ratio
451 (1) (c)		Page 34 / Table 15: Leverage ratio
451 (1) (d)	Description of the risk management approach to mitigate excessive leverage, and factors that impacted the leverage ratio during the year.	See page 158, management of capital risk.
451 (1) (e)		
451 (2)	EBA to publish implementation standards for points above.	Barclays follows the implementation standards.
Use of the IRB approach to credit risk		
452 (a)	Permission for use of the IRB approach from authority.	Pages 12 and 13
452 (b)	Explanation of:	
452 (b) (i)	Internal rating scales, mapped to external ratings;	Page 49 / Table 27: Internal default grade probabilities and mapping to external ratings
452 (b) (ii)	Use of internal ratings for purposes other than capital requirement calculations;	Page 122 'Applications of internal ratings'
452 (b) (iii)	Management and recognition of credit risk mitigation;	
452 (b) (iv)	Controls around ratings systems.	Pages 123 and 124 'The control mechanisms for the rating system'
452 (c)	Description of ratings processes for each IRB asset class, provided separately.	Pages 122 and 123. Separate descriptions apply to retail and wholesale classes collectively; hence this is not repeated for each separate class. Pages 125 and 126 / Table 71: IRB credit risk models selected features.
452 (c) (i)		
452 (c) (ii)		
452 (c) (iii)		
452 (c) (iv)		
452 (c) (v)		
452 (d)	Exposure values by IRB exposure class, separately for Advanced and Foundation IRB.	This is shown throughout the report.
452 (e)-(h)	For each exposure class, disclosed separately by obligor grade:	
452 (e)-(f)	Total exposure, separating loans and undrawn exposures where applicable, and exposure-weighted average risk weight.	Pages 50 to 60 / Tables 28-35: IRB wholesale and retail obligor grade disclosures
452 (g)	Actual specific risk adjustments for the period and explanation of changes.	Page 64 / Table 41: Impairment charges, other value adjustments and individual impairment charges for IRB exposures
452 (h)	Commentary on drivers of losses in preceding period.	
452 (i)	Disclosure of predicted against actual losses for sufficient period, and historical analysis to help assess the performance of the rating system over a sufficient period.	Pages 65 / Table 42: Analysis of expected loss versus actual losses for IRB exposures Pages 128 to 131 / Table 72: Analysis of expected performance versus actual results
452 (j)	For all IRB exposure classes:	
452 (j) (i)	Where applicable, PD and LGD by each country where the bank operates.	Appendix A, Page 166
452 (j) (ii)		
Use of credit risk mitigation techniques		
453 (a)	Use of on- and off-balance sheet netting.	Pages 133 to 135
453 (b)	How collateral valuation is managed.	Pages 133 to 135
453 (c)	Description of types of collateral used by Barclays.	Pages 133 to 135
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness.	Pages 133 to 135
453 (e)	Disclosure of market or credit risk concentrations within risk mitigation exposures.	Page 135
453 (f)	For exposures under either the Standardised or Foundation IRB approach, disclose the exposure value covered by eligible collateral.	Page 45 / Table 22: Collateral and guarantees for IRB approach
453 (g)	Exposures covered by guarantees or credit derivatives.	Page 45 / Table 21: Exposures covered by guarantees and credit derivatives – Standardised approach Page 45 / Table 22: Collateral and guarantees for IRB approach

Table 75 continued

CRR ref.	High-level summary	Compliance reference
Use of the Advanced Measurement Approaches to operational risk		
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk	Page 154
Use of internal market risk models		
455 (a) (i)	Disclosure of the characteristics of the market risk models.	Page 142 / Table 73: Market risk models selected features
455 (a) (ii)	Disclosure of the methodology and description of all-price risk measure and incremental risk charge.	Pages 141 and 142
455 (a) (iii)	Descriptions of stress tests applied to the portfolios.	Page 140
455 (a) (iv)	Methodology for back-testing and validating the models.	Pages 142 to 144
455 (b)	Scope of permission for use of the models.	Page 12 / Table 3: The scope of the Standardised and IRB approaches for credit and counterparty credit risk
455 (c)	Policies and processes to determine which exposures are to be included in the trading book, and to comply with prudential valuation requirements.	Pages 140 and 141
455 (d)	High/Low/Mean values over the year of VaR, sVaR, all-price risk measure and incremental risk charge.	Page 77 / Table 51: Analysis of regulatory VaR, SVaR, IRC and APR
455 (d) (i)		
455 (d) (ii)		Page 74 / Table 49: The daily average, maximum and minimum values of management VaR
455 (d) (iii)		
455 (e)	The elements of the own fund calculation.	Page 78 / Table 53: Minimum capital requirement for market risk
455 (f)	Weighted average liquidity horizons of portfolios covered by models.	Disclosed in model discussions on page 141.
455 (g)	Comparison of end-of-day VaR measures compared with one-day changes in portfolio's value.	Page 143

Appendices
Location of risk disclosures

Barclays' Risk disclosures are located across the Annual Report and Pillar 3 Report.

		Annual Report	Pillar 3 Report
Material existing and emerging risks			
Insight into the level of risk across our business and portfolios, the material existing and emerging risks and uncertainties we face and the key areas of management focus.	▪ Business conditions, general economy and geopolitical issues	116	n/a
	▪ UK political and policy environment	116	n/a
	▪ Model risk	116	n/a
	▪ Credit risk	116	n/a
	▪ Market risk	118	n/a
	▪ Funding risk	118	n/a
	▪ Operational risk	119	n/a
	▪ Conduct risk	122	n/a
Risk management			
Overview of Barclays' approach to risk management. A more comprehensive overview together with more specific information on policies that the Group determines to be of particular significance in the current operating environment can be found in Barclays PLC 2014 Pillar 3 Report or at barclays.com.	▪ Risk management strategy	124	99
	▪ Governance structure	124	100
	▪ Risk governance and assigning responsibities	126	104
	▪ Principal risks	127	105
	▪ Credit risk management	128	111
	▪ Management of credit risk mitigation techniques and counterparty credit risk	n/a	132
	▪ Market risk management	130	136
	▪ Management of securitisation exposures	n/a	147
	▪ Capital risk management	132	158
	▪ Liquidity risk management	134	156
	▪ Operational risk management	135	151
	▪ Conduct risk management	137	163
	▪ Reputation risk management	139	161
	▪ Environmental risk	n/a	164
Risk performance			
Credit risk: The risk of suffering financial loss should the Group's customers, clients or market counterparties fail to fulfil their contractual obligations.	▪ Credit risk overview and summary of performance	143	111
	▪ Analysis of maximum exposure and collateral and other credit enhancement held	143	36, 45
	▪ Analysis of the balance sheet	143	43, 47
	▪ The Group's approach to manage and represent credit quality	146	46, 49
	▪ Loans and advances to customers and banks	148	n/a
	▪ Analysis of the concentration of credit risk	149	39, 41
	▪ Exposures to Eurozone countries	150	n/a
	▪ Analysis of specific portfolios and asset types	157	n/a
	▪ Analysis of loans on concession programmes	167	n/a
	▪ Analysis of problem loans	171	61
	▪ Impairment	173	61
Market risk: The risk of a reduction to earnings or capital due to volatility of the trading book positions or an inability to hedge the banking book balance sheet.	▪ Market risk overview and measures in the Group	175	72
	▪ Balance sheet view of trading and banking books	176	73
	▪ Traded market risk	176	74
	▪ Business scenario stresses	179	77
	▪ Review of regulatory measures	179	77
	▪ Capital requirements for market risk	n/a	78
	▪ Non-traded market risk	180	78
	▪ Foreign exchange risk	181	80
	▪ Pension risk review	182	81
	▪ Insurance risk review	183	82
Funding risk – Capital: The risk that the Group is unable to maintain appropriate capital ratios.	▪ Capital risk overview	185	158
	▪ CRD IV Capital	186	15
	▪ Analysis of capital requirements and RWA movements	n/a	23
	▪ Relationship between accounting and regulatory reporting scope	n/a	38
	▪ Leverage ratio requirements	189	34
	▪ Economic capital	190	n/a

Location of risk disclosures

		Annual Report	Pillar 3 Report
Risk performance continued			
Funding risk – Liquidity: The risk that the firm, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.	▪ Liquidity risk overview	192	
	▪ Liquidity risk stress testing	192	
	▪ Liquidity pool	195	
	▪ Funding structure and funding relationships	196	
	▪ Wholesale funding	197	
	▪ Term financing	199	
	▪ Encumbrance	199	
	▪ Credit ratings	203	
	▪ Liquidity management at BAGL Group	204	
	▪ Contractual maturity of financial assets and liabilities	204	
Operational risk: The risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events.	▪ Operational risk overview	210	96
	▪ Summary of performance in the period	210	96
	▪ Operation risk profile	210	97
Conduct risk: The risk that detriment is caused to our customers, clients, counterparties or Barclays and its employees because of inappropriate judgement in the execution of our business activities.	▪ Conduct risk overview	212	n/a
	▪ Summary of performance	212	
	▪ Conduct Reputation measure	212	
Reputation risk: The risk of damage to Barclays' brand arising from any association, action or inaction which is perceived by stakeholders to be inappropriate or unethical.	▪ Litigation, investigations and culture change	213	n/a
	▪ Transparency	213	n/a
	▪ Remuneration	213	n/a
	▪ Climate change	213	n/a
	▪ Reputation tracking	214	n/a
Supervision and regulation: The Group's operations, including its overseas offices, subsidiaries and associates, are subject to a significant body of rules and regulations that are a condition for authorisation to conduct banking and financial services business.	▪ Supervision of the Group	215	n/a
	▪ Global regulatory developments	215	n/a
	▪ European Union developments	216	n/a
	▪ Structural reform of banking groups	217	n/a
	▪ Regulation in the United Kingdom	217	n/a
	▪ Resolution of UK banking groups	218	n/a
	▪ Compensation schemes	218	n/a
	▪ Influence of European legislation	218	n/a
	▪ Regulation in Africa	218	n/a
	▪ Regulation in the United States	219	n/a
Pillar 3 Report			
Contains extensive information on risk as well as capital management.	▪ High level summary of risk and capital profile	n/a	2
	▪ Notes on basis of preparation	n/a	5
	▪ Scope of application of Basel rules	n/a	6
Risk and capital position review: Provides a detailed breakdown of Barclays' regulatory capital adequacy and leverage and how this relates to Barclays' risk management.	▪ Group capital resources, requirements and CRD IV comparatives	n/a	15
	▪ Analysis of credit risk	n/a	35
	▪ Analysis of counterparty credit risk	n/a	67
	▪ Analysis of credit value adjustment	n/a	83
	▪ Analysis of market risk	n/a	71
	▪ Analysis of securitisation exposures	n/a	84
	▪ Analysis of operational risk	n/a	95

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